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ORIGINAL

January 5, 2009

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

RE: APS COMPLIANCE WITH DECISION NO. 70667 – APS/PINNACLE WEST COMMUNICATIONS WITH  
CREDIT RATING AGENCIES  
Docket No. E-01345A-08-0172

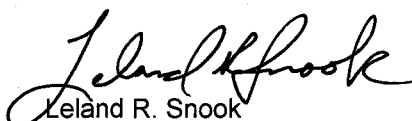
Attached please find copies of Arizona Public Service Company (APS) and Pinnacle West's available past communications with credit rating agencies as instructed per Decision No. 70667 (December 24<sup>th</sup>, 2008):

"APS shall site all currently existing communications within 10 days of the effective date of this Decision and shall file future communication on a monthly basis."

This filing only includes materials not previously provided to Commission Staff, which previous filings covered emails and written presentations for the period up to and including December 5, 2008. APS has also attempted to memorialize the phone call communications prior to such date and has instituted a log system for such communications starting December 19, 2008.

This filing covers the available communications with rating agencies through December 24, 2008. If you have any questions or concerns please contact David Rumolo (602)-250-3933.

Sincerely,

  
Leland R. Snook

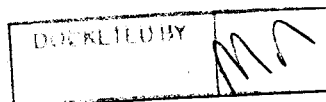
LS/dst

Attachments

CC: Ernest Johnson  
Brain Bozzo  
Barbara Keene  
Terri Ford (includes confidential portions of prior submissions)

Arizona Corporation Commission  
DOCKETED

JAN - 5 2009



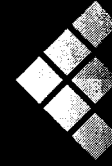
AZ CORP COMMISSION  
DOCKET CONTROL

2009 JAN - 5 P 3:58

RECEIVED

# Rating Agency Communication Log

Date	Person	APS/PNW Personnel	Subject	Comment
11/7/2008	Antonio Bettinelli (S&P), Richard Cortright (S&P), Laura Schumacher (Moody's), Phil Smyth (Fitch)	Don Brandt, Randy Edington, Steve Wheeler, Jim Hatfield, Barb Gomez	Formal presentation on company update	PNW Hosted Analyst Day prior to EEI Conference
11/10/2008	Formal presentations by Fitch (breakfast) and S&P (luncheon)	Barb Gomez	Rating agency presentations on credit topics - no written materials provided	
Week of 11/10/08	Laura Schumacher and Mitchell Moss, Moody's	Barb Gomez	Phone call to discuss ALJ Recommended Order and Opinion - Interim Rates	
Week of 11/17/08	Phil Smyth, Fitch	Jim Hatfield and Barb Gomez	Phone call to discuss ALJ Recommended Order and Opinion - Interim Rates	
Week of 12/1/08	Tony Bettinelli, S&P	Barb Gomez	Tony called with questions regarding APS/PNW liquidity	
12/19/2008	Phil Smyth, Fitch	Jim Hatfield, Barb Gomez, Chris Froggatt, Jim McGill	Phone call to discuss interim rate decision, timing of GRC, APS/PNW organizational changes	Phil noted he would be taking us to credit committee after the first of the year (annual review); sent Mayes Amendment via e-mail; Investor Relations (IR) sent 8K on GRC testimony
12/19/2008	Tony Bettinelli and Todd Shipman, S&P	Jim Hatfield, Barb Gomez, Chris Froggatt, Jim McGill	Phone call to discuss interim rate decision, timing of GRC, APS/PNW organizational changes	Sent Mayes Amendment via e-mail; IR sent 8K on GRC testimony
12/19/2008	Laura Schumacher, Moody's	Jim Hatfield, Barb Gomez, Chris Froggatt, Jim McGill	Phone call to discuss interim rate decision, timing of GRC, APS/PNW organizational changes	Sent Mayes Amendment via e-mail; IR sent 8K on GRC testimony
12/22/2008	Phil Smyth, Fitch	Jim McGill, Rufad Omanovic	Phone call to discuss ACC Staff, RUCO, and AECC GRC testimony	IR sent press release on org changes
12/22/2008	Tony Bettinelli, S&P	Jim McGill, Rufad Omanovic	Left message that we'd like to discuss ACC Staff, RUCO, and AECC GRC testimony	IR sent press release on org changes
12/22/2008	Laura Schumacher, Moody's	Jim McGill, Rufad Omanovic	Phone call to discuss ACC Staff, RUCO, and AECC GRC testimony	IR sent press release on org changes



**PINNACLE**West  
CAPITAL CORPORATION

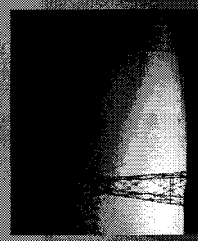
**Analyst Conference**  
**November 6-7, 2008**

# Forward-Looking Statements

These presentations contain forward-looking statements based on current expectations. Neither Pinnacle West nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2007, these factors include, but are not limited to, state and federal regulatory and legislative decisions and actions, including the outcome or timing of any pending APS rate cases; increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs; our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels; and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions; volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, and availability of supplies of such commodities; the outcome of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change; the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona; regional, national and international economic and market conditions, including the strength of the housing, credit and financial markets; the potential adverse impact of current economic conditions on our results of operations; the cost of debt and equity capital and access to capital markets; changes in the market price of our common stock; entering into credit agreements that restrict dividends or contain other burdensome provisions; our ability to meet debt service obligations; current credit ratings remaining in effect for any given period of time; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trusts, pension and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West's pension plan and contributions to APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; volatile market liquidity, any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; customer growth and energy usage; weather variations affecting local and regional customer energy usage; power plant performance and outages; transmission outages and constraints; the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the ability of our power plant participants to meet contractual or other obligations; technological developments in the electric industry; the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; the performance of our subsidiaries and any resulting effects on our cash flows; the strength of the real estate market and economic and other conditions affecting the real estate market in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.



PINNACLE WEST  
CAPITAL CORPORATION



# Operations Overview

Don Brandt

Analyst Conference  
November 7, 2008

# **Strategic Objectives**

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- **Manage intrinsic growth in our markets**
- **Prudently increase our resource portfolio**
- **Maintain top-quartile operational performance and reliability**
- **Achieve constructive regulatory outcomes**
- **Manage costs aggressively**
- **Improve financial strength and shareholder value**

# Today's Agenda

- Four-part plan to improve APS' financial strength
- Growth update
- Resource planning and management
- Operations overview
  - Fossil generation
  - Customer service
  - EEI Award and other recognition
- SunCor

## **Plan to Improve APS' Financial Strength**

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- Cost reductions announced January 2008
  - \$200 million capital expenditures 2008 – 2012
  - \$14 million annual O&M
- Additional \$700 million capital expenditure reductions 2009 – 2011 announced October 2008
- Interim rate request
- General retail rate case



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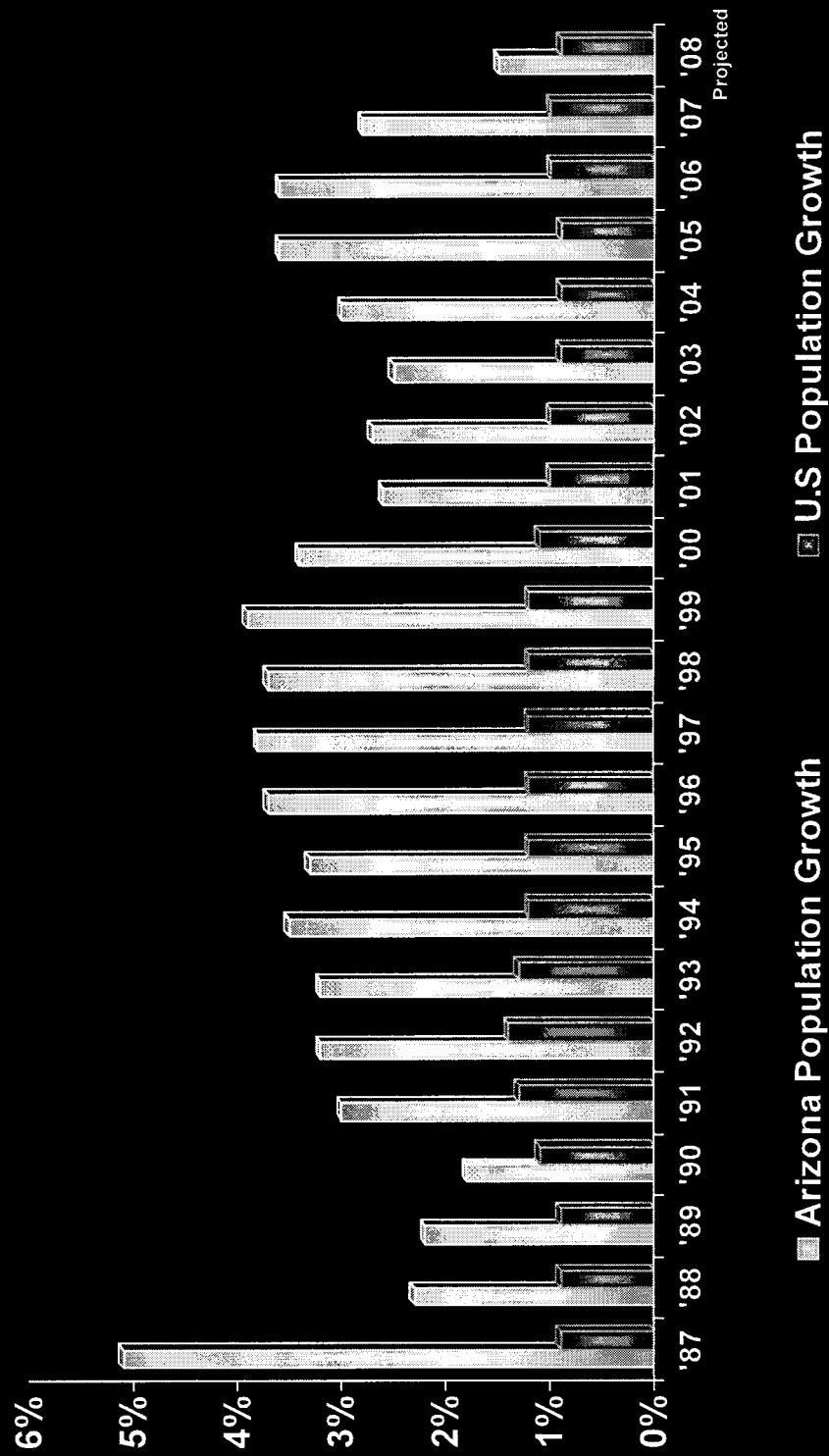
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# Growth and Resource Management

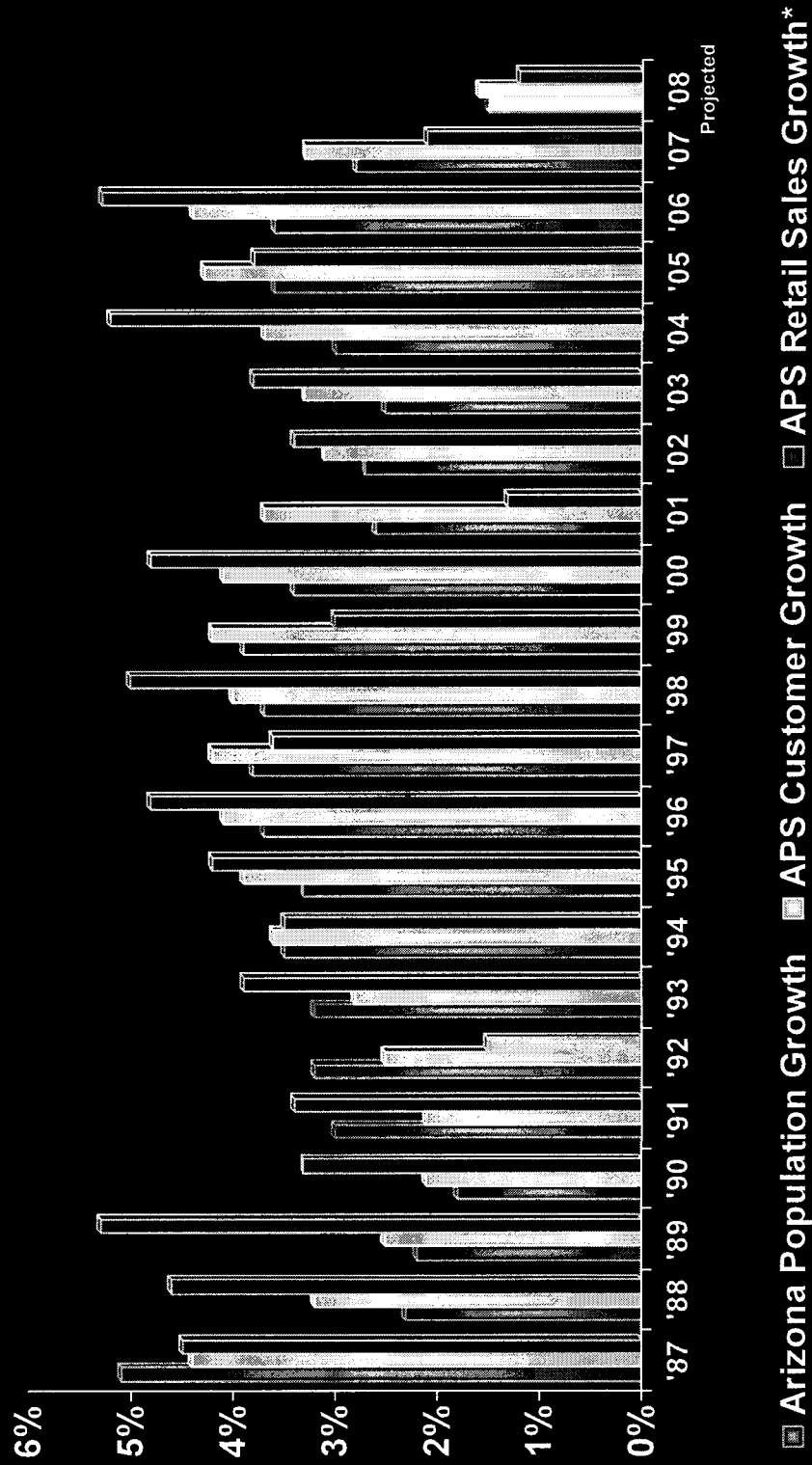
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# Attractive Intrinsic Growth Characteristics Population Growth – Arizona vs. U.S.

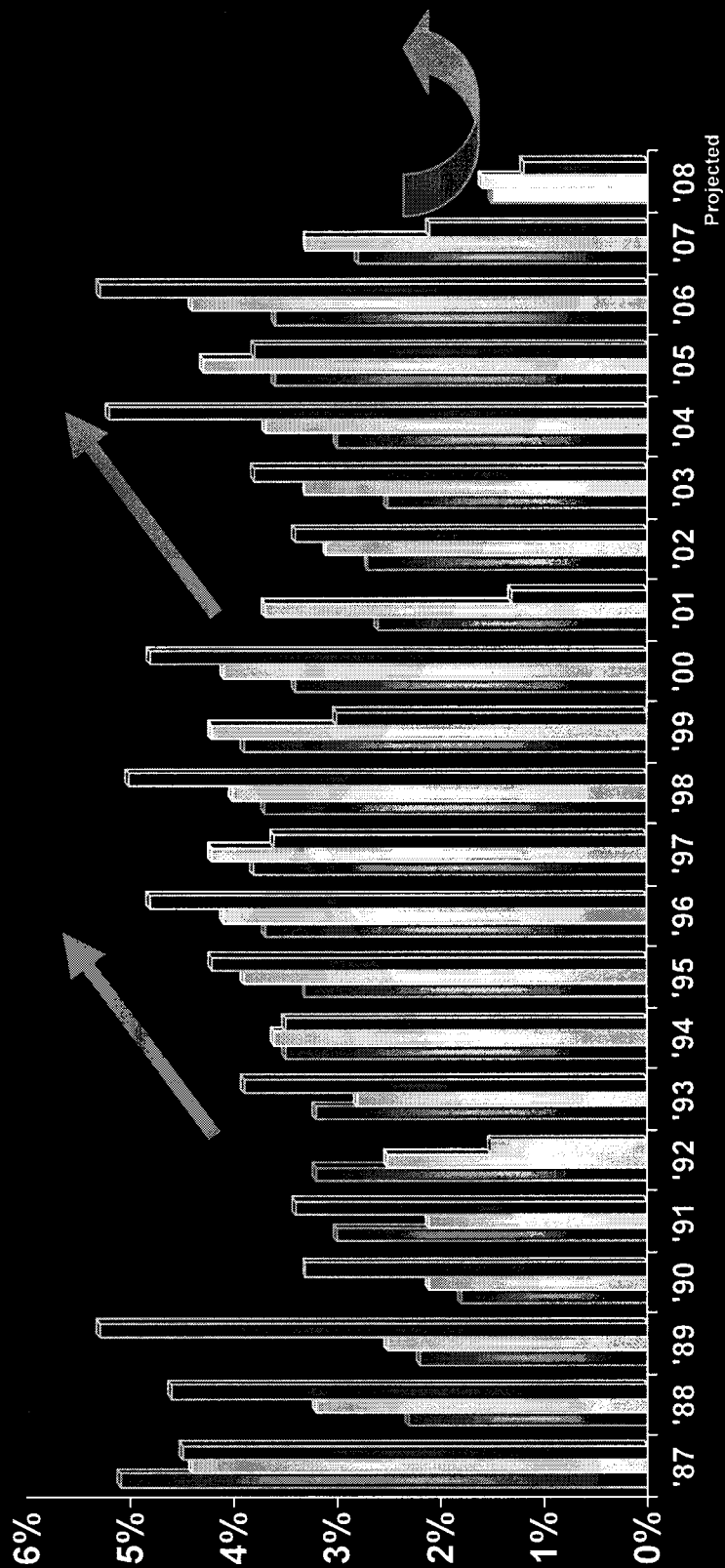


# Population Growth Underpins APS Business Growth



\* Weather-normalized

# APS Growth Historically Rebounds After Recessions



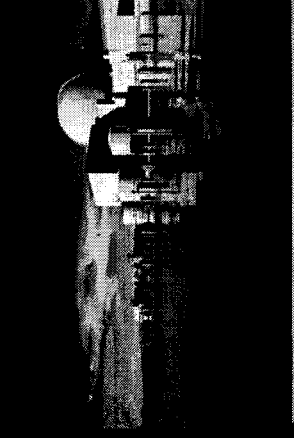
■ Arizona Population Growth ■ APS Customer Growth □ APS Retail Sales Growth\*

\* Weather-normalized

# APS Resource Management Initiatives

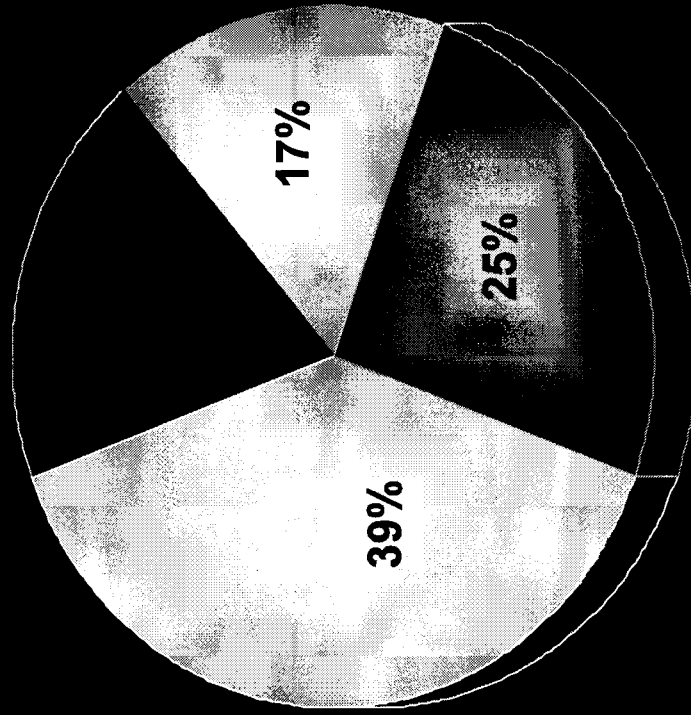
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- Maintaining diversified energy mix
- Balancing needs and resources
- Addressing renewables, energy efficiency and climate change
- Hedging purchased power and gas prices



# Diversified Energy Fuel Mix

## *Native Load*

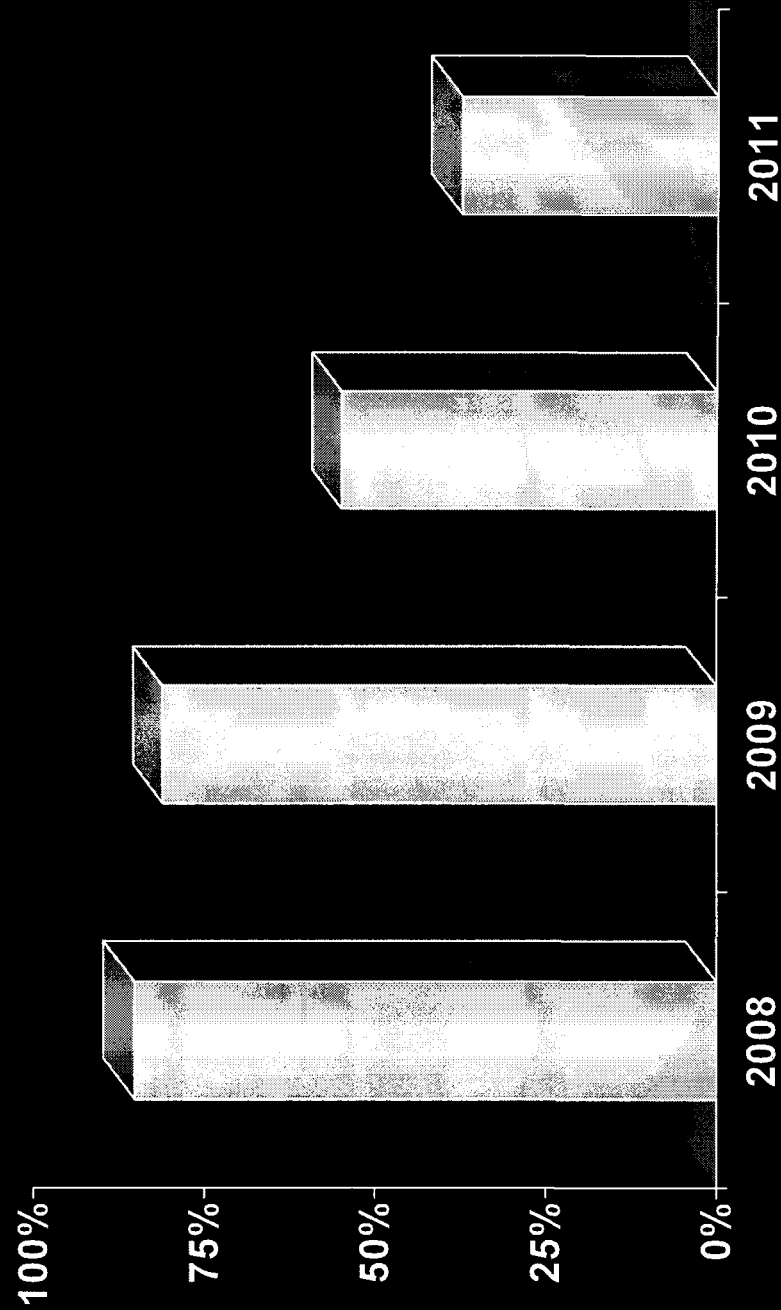


■ Nuclear   ■ Coal   □ Gas   ■ Purchased Power

Twelve months ended September 30, 2008

# Purchased Power and Gas Hedging Program

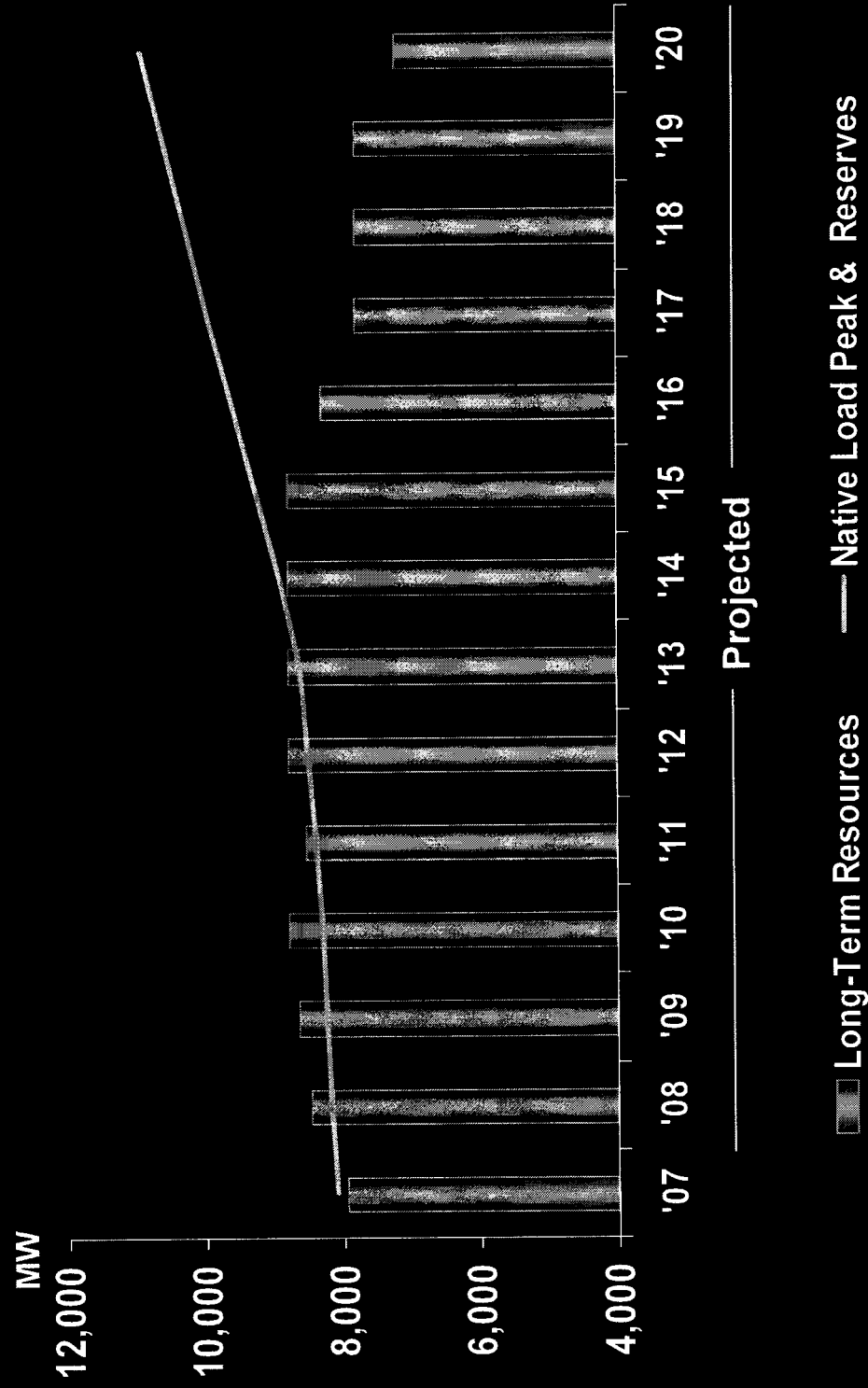
*Percent of Requirements Hedged*



As of September 30, 2008

# Meeting Challenges of Peak Load Growth

2007 - 2020 Average Annual Load Growth 2.3%





# **Arizona Renewable Resource Requirements**

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- **Arizona Renewable Energy Standard (RES)**
- **Sets minimum renewable energy amounts**
  - **1.5% of energy for retail sales in 2007**
  - **5% of energy for retail sales by 2015**
  - **15% of energy for retail sales by 2025**
- **Includes distributed energy component**
  - **5% of total in 2007**
  - **30% of total by 2012**

## **APS Major New Solar Resource Solana Generating Station**

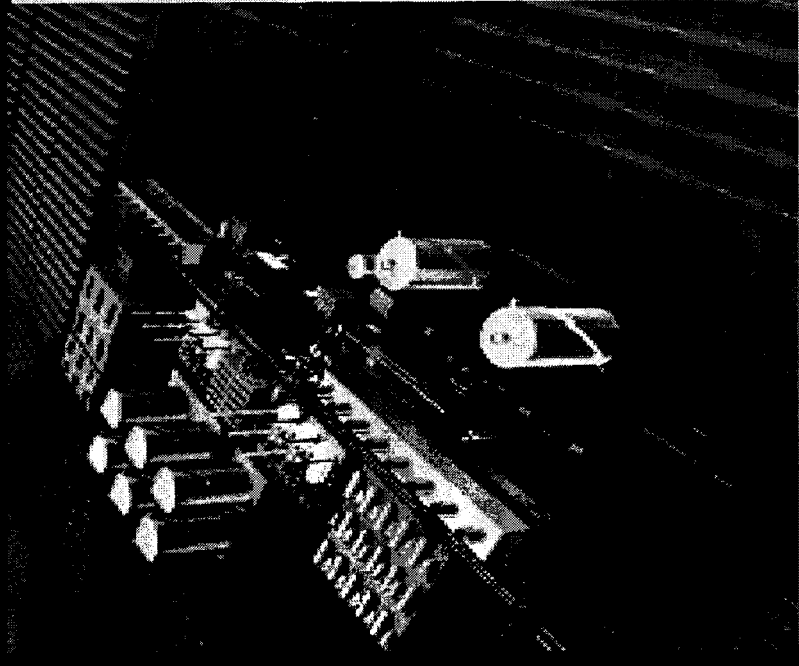
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- **280 MW concentrating solar plant 70 miles southwest of Phoenix**
- **Larger than any existing solar facility in the world**
- **APS 30-year purchase power agreement for all output (900 GWh/year)**
- **Thermal storage capability will allow summer on-peak capacity factor over 90%**
- **To be built, owned and operated by Abengoa Solar**
- **Planned to be operational in late 2011**

# **Solana Generating Station Recent Milestones**

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- **APS participation approved by ACC September 2008**
- **Status of Certificate of Environmental Compatibility (CEC)**
  - **Siting committee approval October 2008**
  - **ACC ruling expected December 2008**
- **Renewables tax credit extension approved by Congress September 2008**



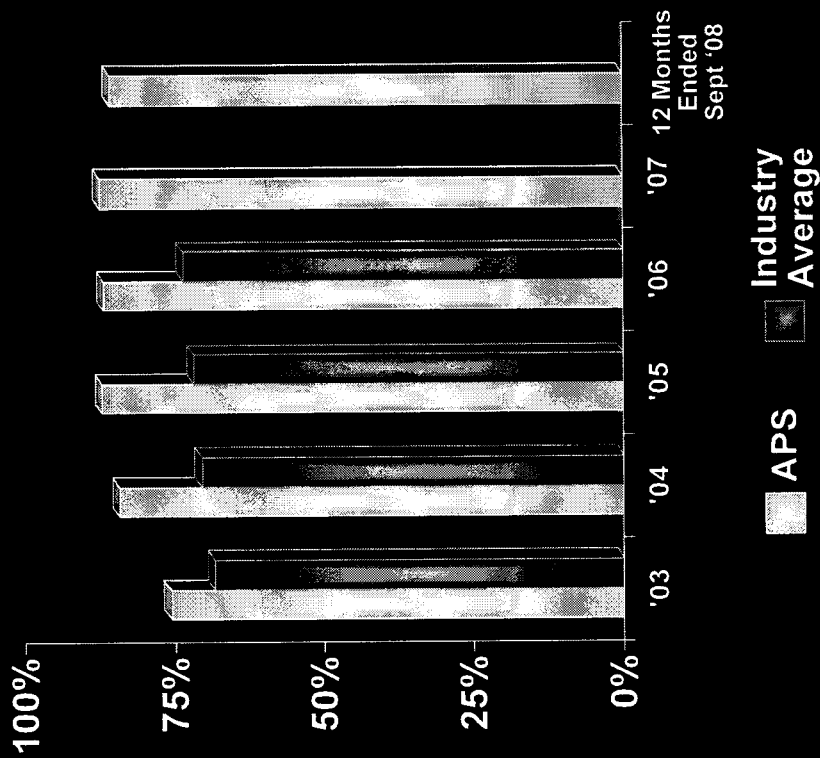
## **Resource Planning for the Future**

- Stakeholders actively involved
- Resource needs and options evaluated
  - Peaking capacity through next decade
  - Baseload capacity thereafter
- APS resource plan to be filed with ACC year-end 2008
- ACC integrated resource planning rules being developed

# Operational Excellence

# Top-Tier Coal Generation Performance

## Capacity Factors



## 2007 Highlights

- Record fleet capacity factors for fourth straight year
- Cholla
  - Set new production record 5.1 million MWh
  - Capacity factor 90%
- Four Corners
  - Capacity factor 86%
  - 14.6 million MWh generated

# Fossil Generation Environmental Targets

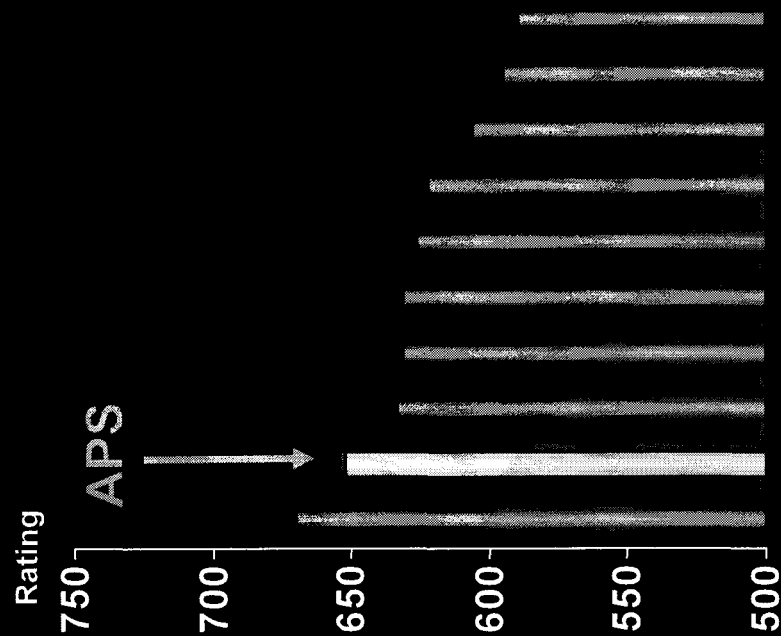
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- Zero non-air related reportable environmental incidents
- Self assessments at each plant annually
- Environmental Management Systems (EMS) to promote compliance at all levels

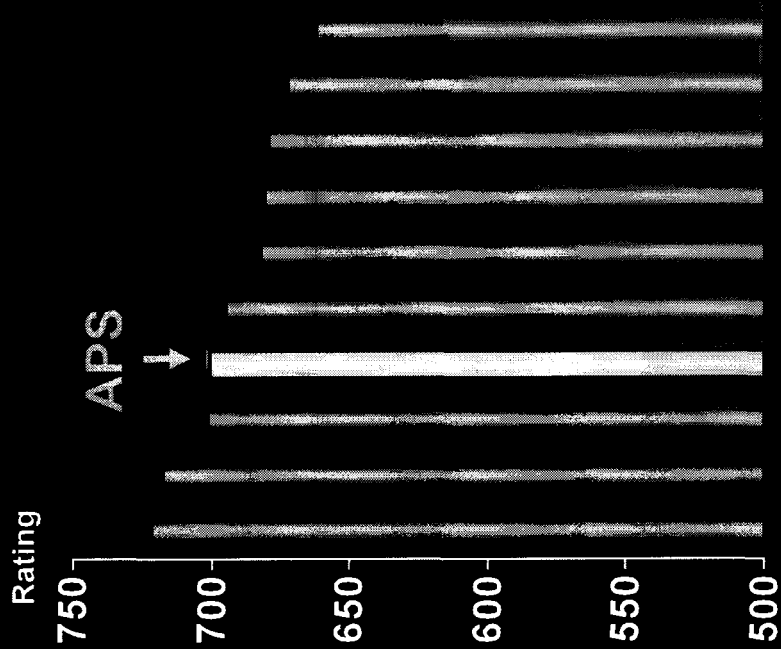


# APS Customer Satisfaction High Among Western Electric IOU's

*Residential Customers*



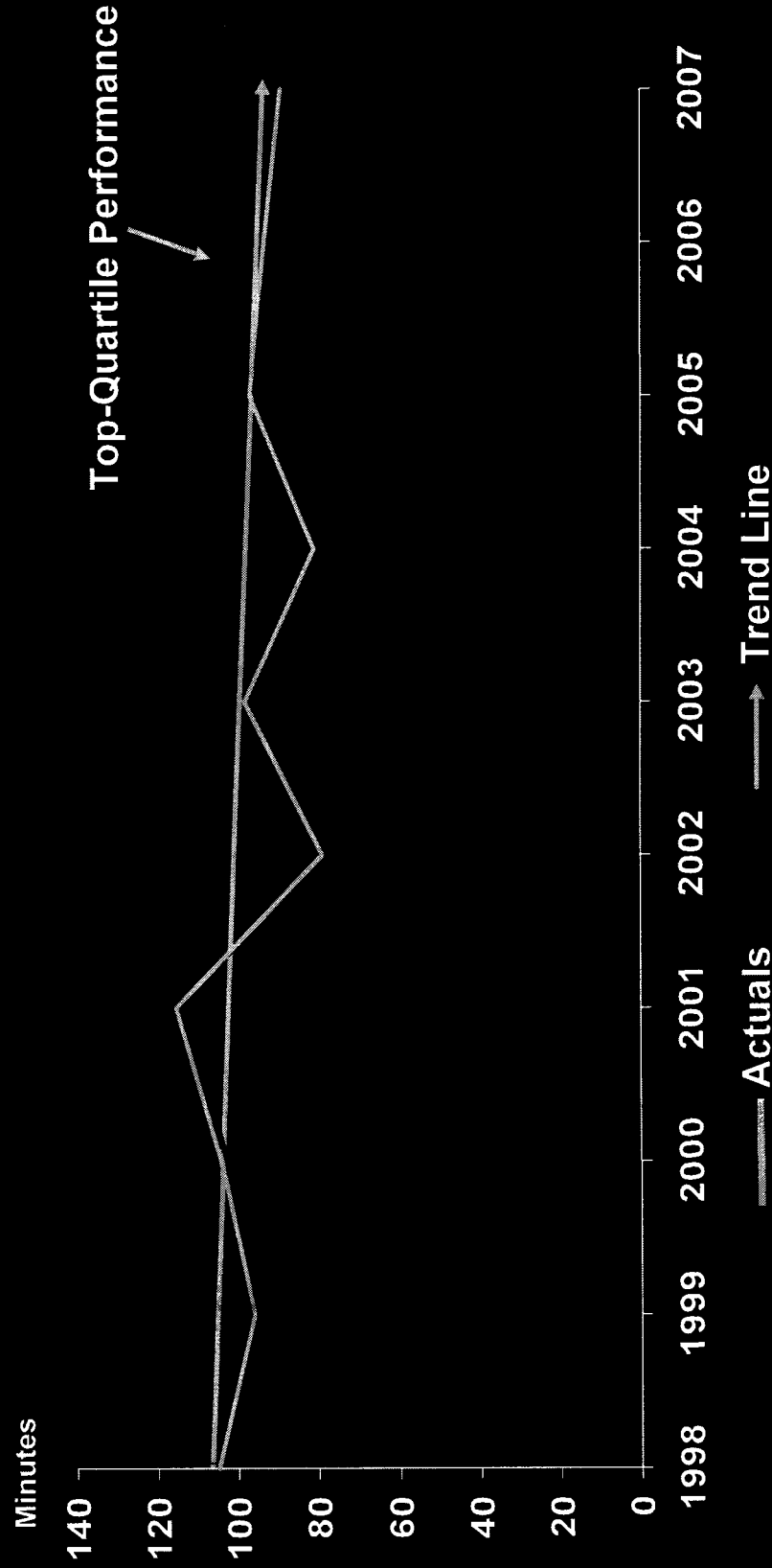
*Commercial Customers*





# Top-Quartile Reliability Reducing Average Customer Outage Time

*System Average Interruption Duration Index (SAIDI)*



Average annual outage time per customer

# Labor Day Storm Response Exemplified Excellence

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## *Timeline*

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### August 28 - Thursday

- 10:00 p.m. – First Storm - 80,000 customers out

### August 29 - Friday

- 6:30 a.m. – 32,000 out
- 8:00 p.m. – 3,400 out
- 11:00 p.m. – Second Storm - 9,000 more off

### August 30 - Saturday

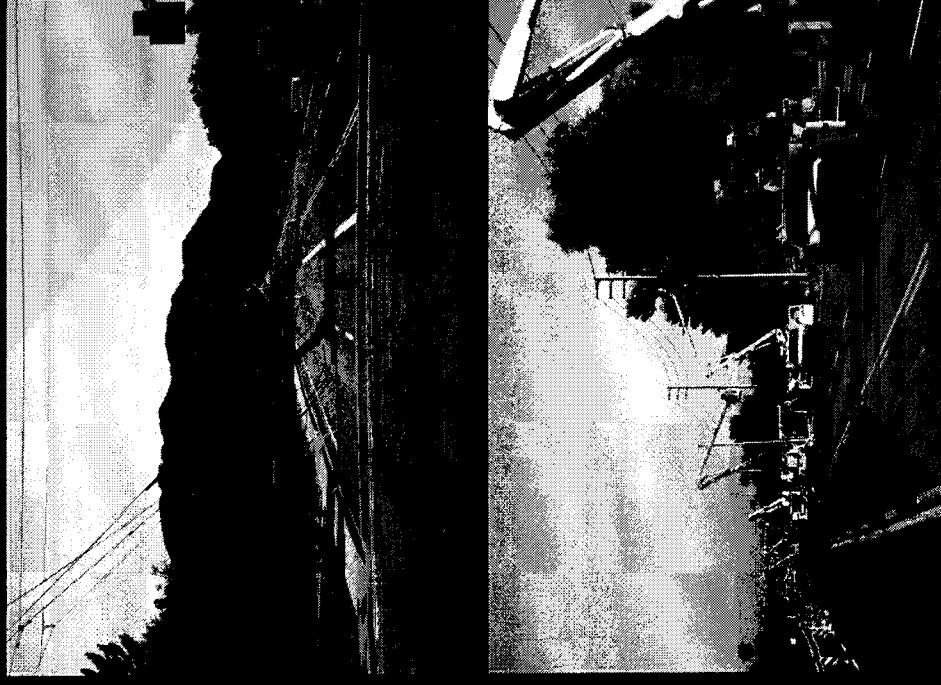
- 7:30 a.m. – 4,000 out
- 9:00 p.m. – 1,500 out

### August 31 - Sunday

- Customers out reduced to 400

### September 1 - Monday

- All restored by 3:00 p.m.



# Labor Day Storm Response Statistics

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- 51 distribution feeders – 80,000 customers impacted
- Call Center handled 47,609 customer calls on August 29 (single-day record)
- Over 2,600 trouble orders
- Vegetation management crews cleared lines at 250 locations
- 147 poles and over 100 transformers replaced
- 500 employees and 200+ contractors involved in restoration efforts



# APS Receives Electric Industry's Most Prestigious Honor

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"APS' new system for monitoring transformer performance is a remarkable achievement and could potentially benefit electric utilities everywhere.... This system represents a significant step forward in managing and monitoring the electric grid."

Thomas Kuhn  
Edison Electric Institute President  
June 2008

# Other Recognition Environmental, Sustainability and Technology

**Innovest**  
STRATEGIC VALUE ADVISORS



**CORPORATEKNIGHTS**

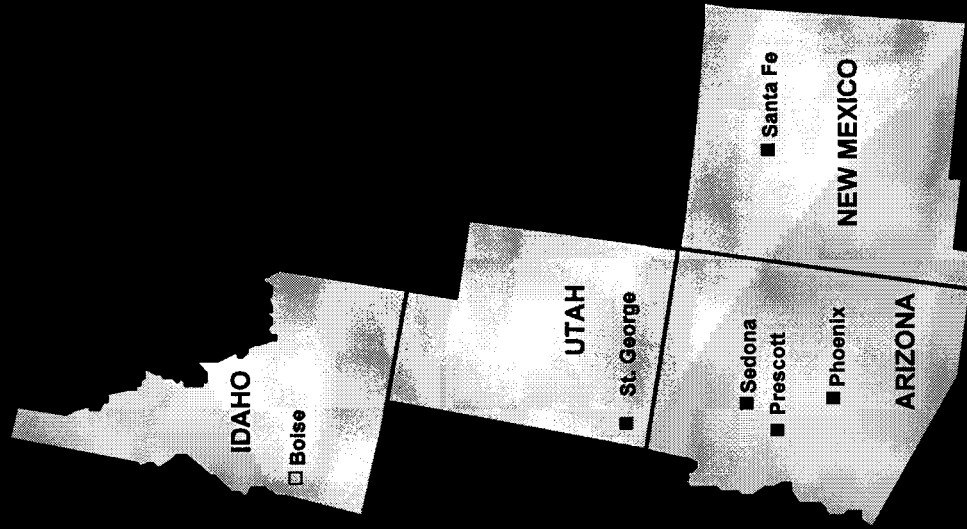


**InformationWeek**

- Innovest's highest rating (AAA) and ranked #2 electric utility
- Dow Jones Sustainability Index
- Global 100 Most Sustainable Corporations in World by Corporate Knights
- Storebrand's Social Responsibility Index "best in class" distinction
- EPA Climate Protection Award
- SEPA Top 10 Utility Solar Ranking
- Top 10 in U.S. in Technology Innovation and #1 utility

SunCor

# SunCor Overview



- Commercial and residential real estate developer in Western U.S.
- Total assets = \$578 million
- Equity = \$297 million
- Diverse geographic and business mix
  - 6 master-planned communities
  - 2 major commercial projects

As of September 30, 2008



## SunCor Near-Term Tactics

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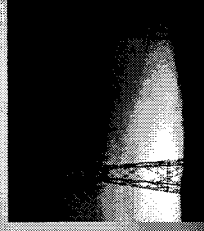
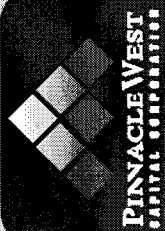
- Manage land, residential and commercial inventory
- Reduce costs / improve efficiency
  - Workforce reduced 50% from peak
  - Capital expenditure reduction/delay
  - General and administrative expenses being reduced more than 20% from peak



## **Strategic Summary**

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- **Manage intrinsic growth in our markets**
- **Prudently increase our resource portfolio**
- **Maintain top-quartile operational performance and reliability**
- **Achieve constructive regulatory outcomes**
- **Manage costs aggressively**
- **Improve financial strength and shareholder value**

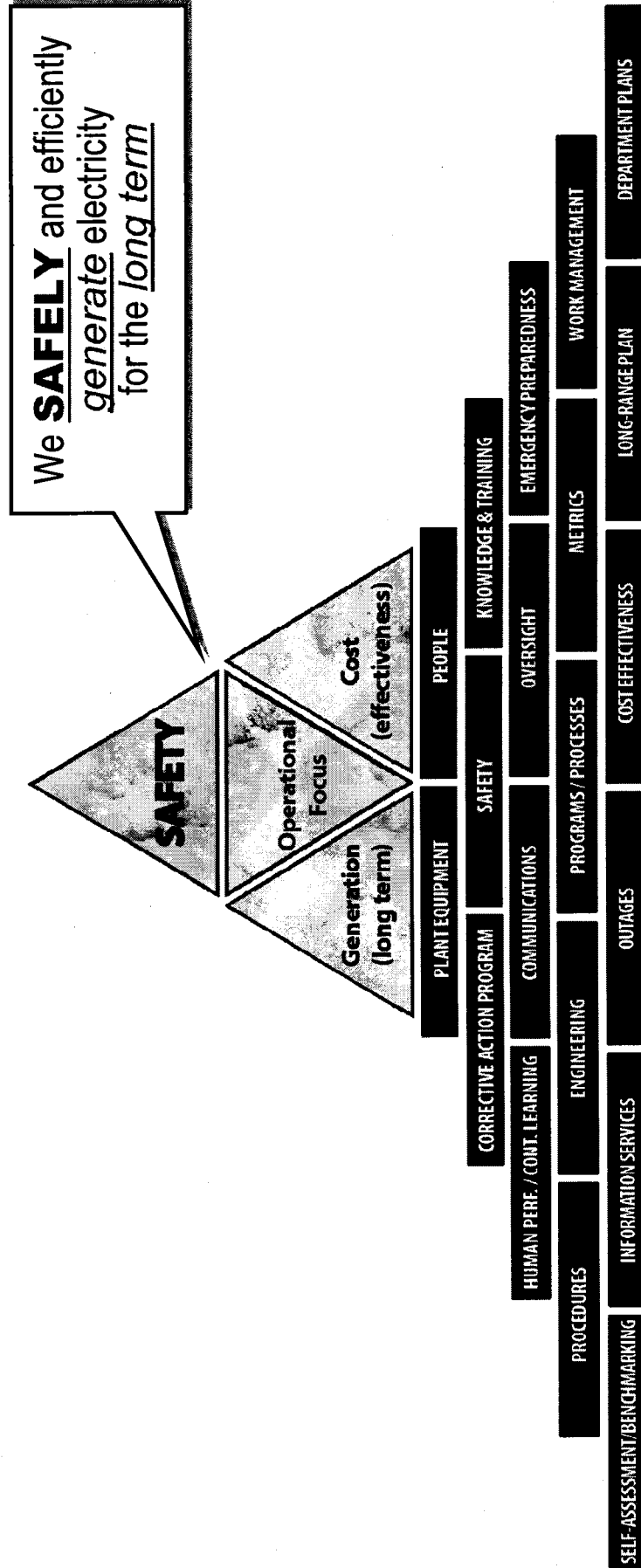


# Palo Verde Overview

Randy Edington

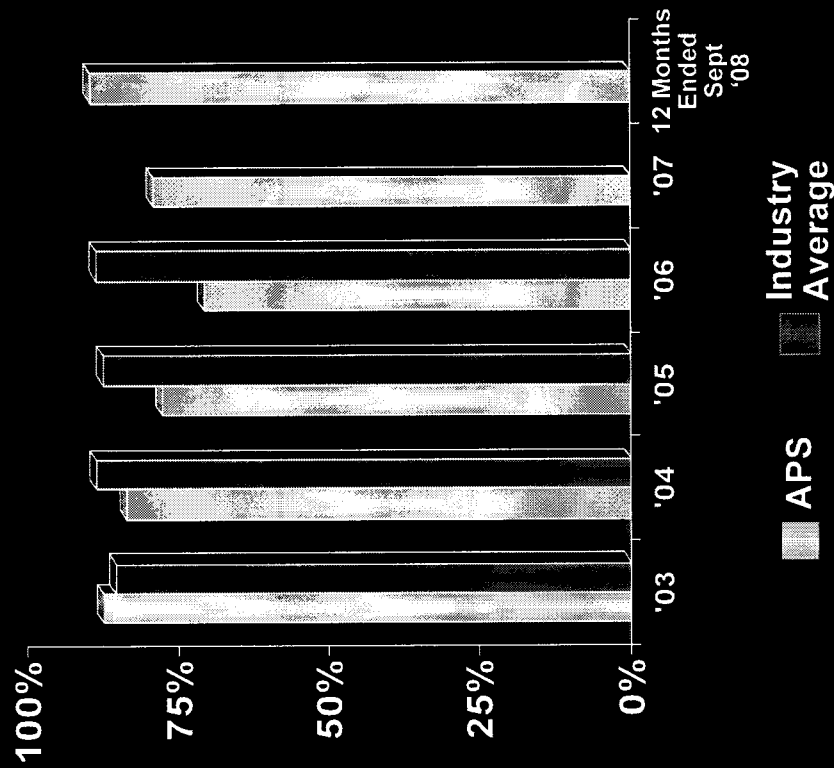
Analyst Conference  
November 7, 2008

# Palo Verde's Business Plan



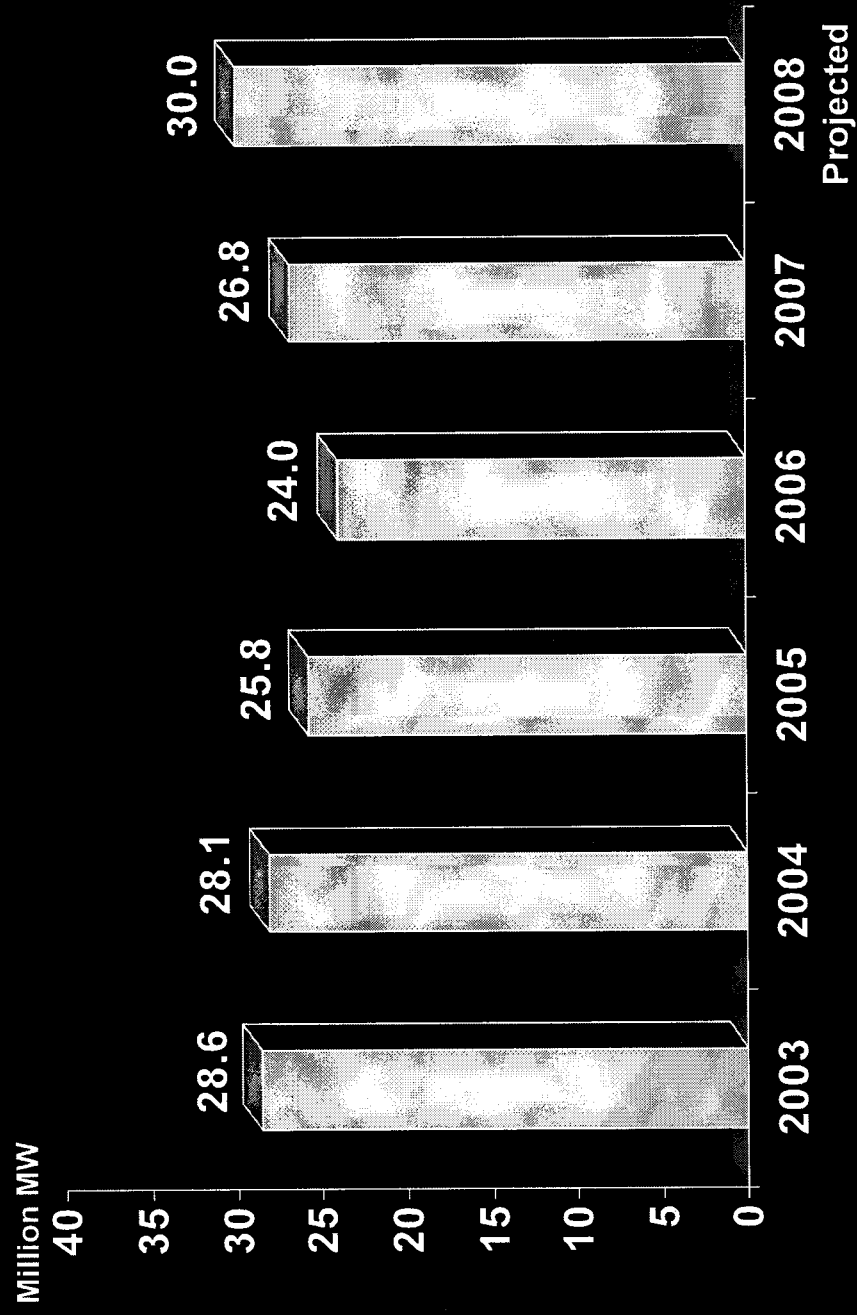
# Improving Nuclear Generation Performance

## Capacity Factors

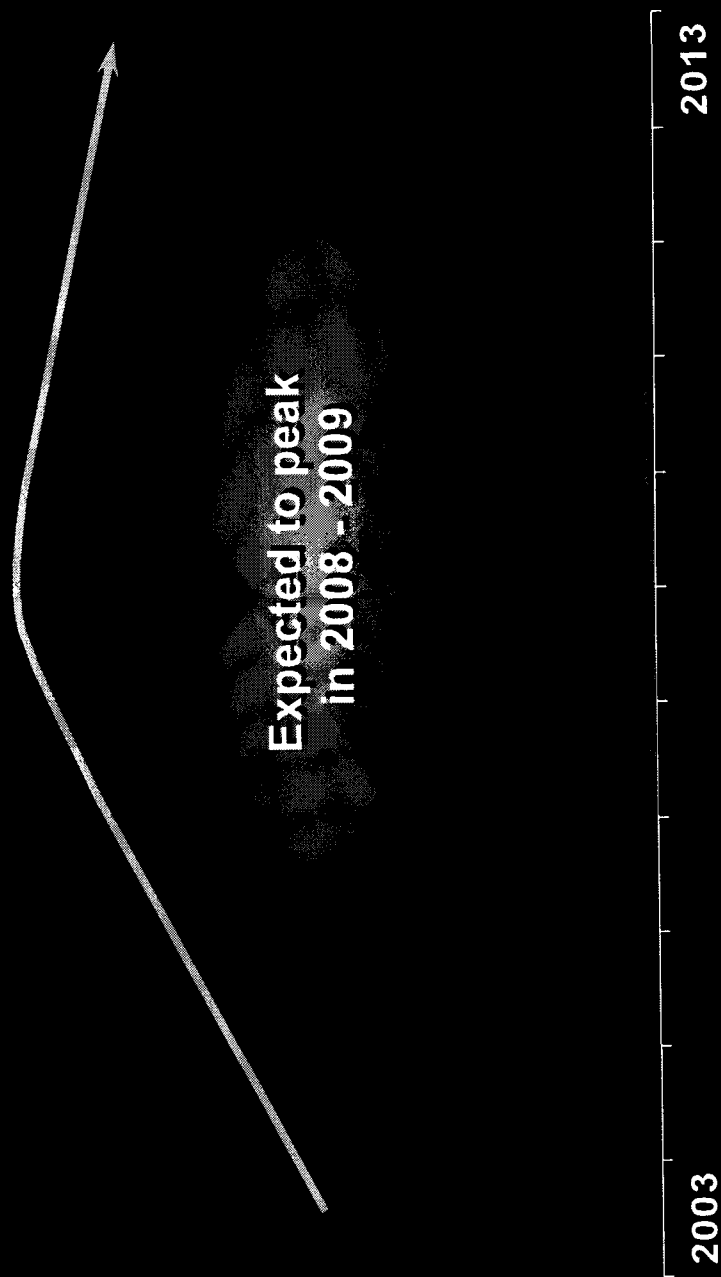


- Top U.S. power producer past 15 years
- Goal to achieve consistent site capacity factor greater than 88%
- Performance improvement plan underway
- Strengthening regulatory relationships

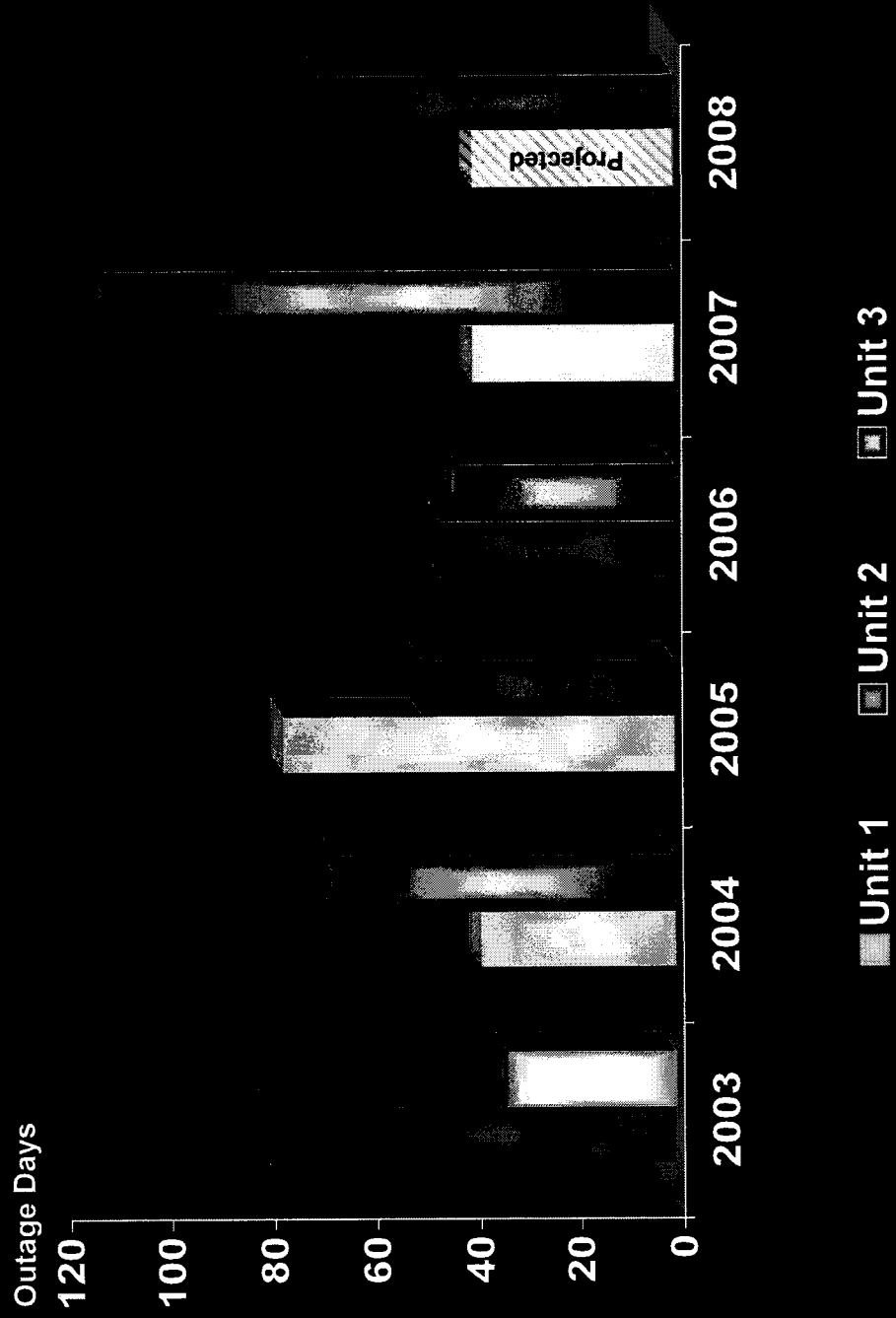
# Net Generation



# O&M Cost Trends



# Refueling and Steam Generator Replacement Outages



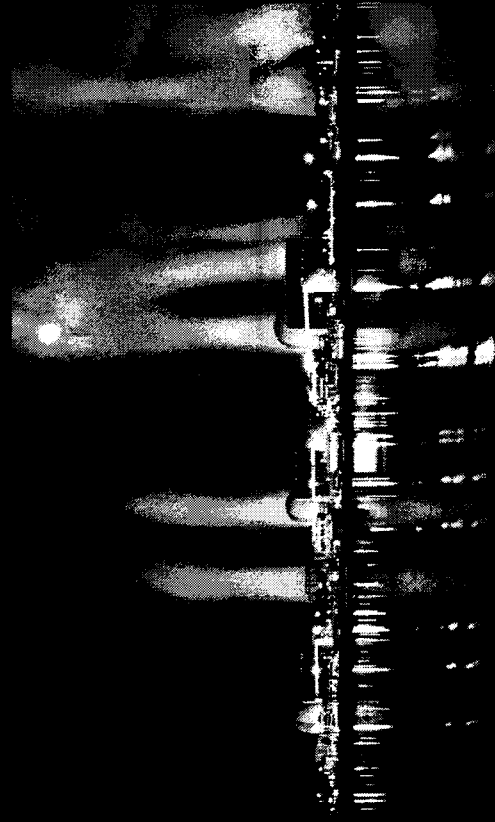
## **Regulatory Activities**

- Site Integrated Business Plan (SIBP)
- Site Integrated Improvement Plan (SIIP)
- Confirmatory Action Letter (CAL)
  - Expected to be cleared by end of 2009
- NRC Reactor Oversight Action Matrix
  - Unit 3 expected to be out of Column 4 by end of 2009
- License Renewal Request



## **License Renewal**

- Plan to file application by end of 2008
- Request to extend operating licenses by 20 years
- License extension process expected to take about two years



# **Major Capital Improvements**

## **Completed projects**

- **Steam generators**
- **Low-pressure turbines**

## **Future projects**

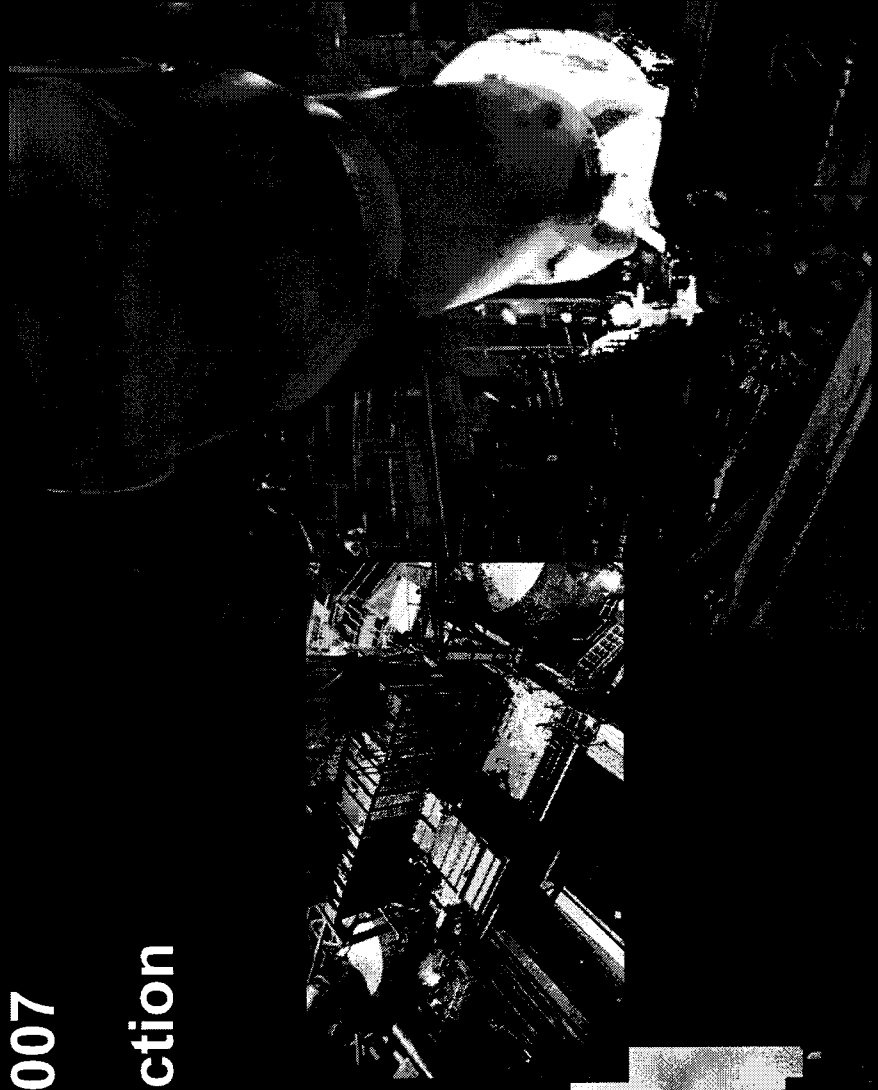
- **Reactor vessel heads**
- **Rapid refueling packages**
- **Cooling towers**

**All projects in capital expenditure forecasts**

# Steam Generators and Low-Pressure Turbines

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- Completed at all units in 2003 – 2007
- Increased production capability
  - 210 MW total site
  - 61 MW APS share



# **Reactor Vessel Head Replacements**

- **Planned timing (during normal refueling outages):**
  - Unit 2 – Fall 2009
  - Unit 1 – Spring 2010
  - Unit 3 – Fall 2010
- **Estimated outage duration**
  - About 60 days/unit
- **Projected site costs (all units)**
  - \$90-100 million total project
  - APS share 29.1%



## **Rapid Refueling Packages**

- **Planned timing**
  - Concurrent with reactor vessel head replacements
- **Projected site costs (all units)**
  - \$100-110 million total project
  - APS share 29.1%



# Cooling Tower Replacements

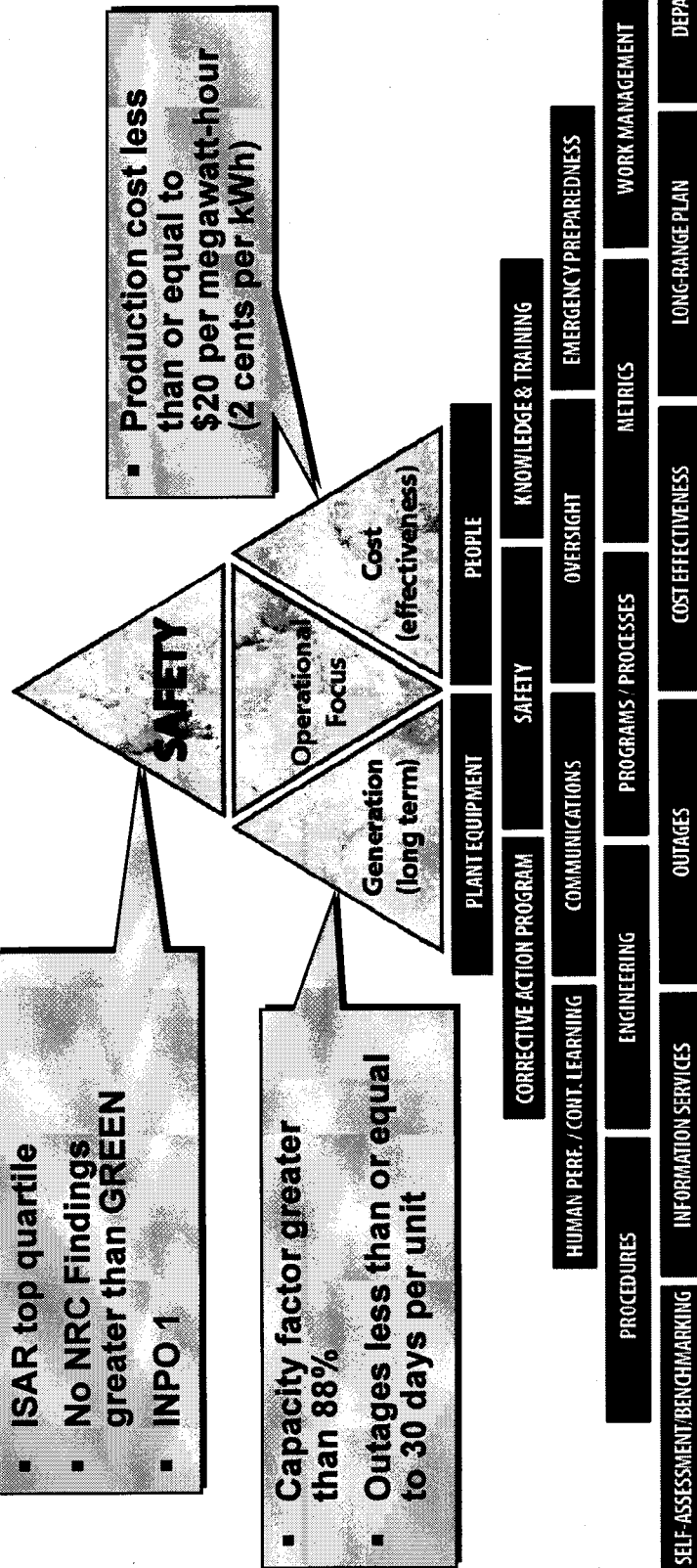
- Currently in design stage
- Projected completion: 2015
- Preliminary site project cost estimate (all units)
  - \$400 million total project
  - APS share 29.1%

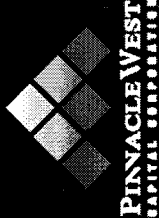


# The Road to Excellence – 2013 Goals

- ISAR top quartile
- No NRC Findings greater than GREEN
- INPO 1

- Capacity factor greater than 88%
- Outages less than or equal to 30 days per unit

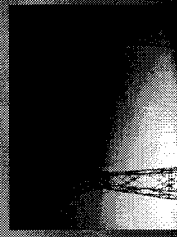
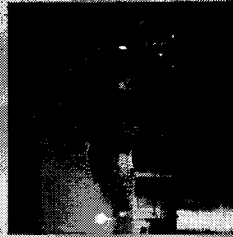




PINNACLE WEST  
CAPITAL CORPORATION



THE POWER OF  
*Experience*



# Regulatory Overview

Steve Wheeler

Analyst Conference  
November 7, 2008



# **Today's Agenda**

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- **Regulatory goals**
- **Significant developments in recent years**
- **Retail rate cases pending**
  - **Interim base rate request**
  - **General rate case**
- **Transmission rate settlement**
- **ACC election results**
- **Focusing on regulatory improvements**

## **APS' Primary Regulatory Goals**

- Timely cost recovery and return on investment
- Financial strength and stability
- APS integrated resource plan approval
- Improved regulatory processes
- Establishment of prudent, comprehensive state energy policy
- Support for beneficial customer programs

# **Significant Developments Since 2005**

- Unification of PWEC assets
- Retail cost recovery mechanisms
  - Fuel and purchased power adjustor (PSA)
  - Transmission cost adjustor (TCA)
  - Renewables surcharge (RES)
  - Demand-side management adjustor (DSM)
  - Environmental improvement surcharge (EIS)
- Retail line extension fees
- FERC “formula” transmission rates

## **APS Interim Base Rate Request Details**

- Application filed with ACC June 6, 2008
- Base rate surcharge to be effective until general rate case decision
  - \$0.004 per kWh (approximately 4%)
  - \$115 million annual pretax retail revenues
- Subject to refund pending outcome of general rate case
- Hearings September 15-19, 2008
- Requested effective date November 2008

## **Interim Rate Request Themes**

- **Address APS' financial condition pending general rate case proceedings**
  - **Preserve investment-grade credit ratings**
  - **Provide cash flow**
  - **Strengthen credit metrics and earnings**
- **Protect customers against higher future costs**
- **Reduce rate volatility for customers**
- **Recognize cost management essential, but not enough**
- **Implement as part of broader four-part plan to restore APS' financial strength**

# Summary of Staff and Intervenor Positions on Interim Relief Request

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## ACC Staff

- Does not support interim increase
- If Commission grants request
  - \$65 million annual revenue increase recommended
  - No equity infusion pre-condition

## Residential Utility Consumer Office (RUCO)

- Does not support interim increase

## Arizonans for Electric Choice and Competition (AECC)

- Supports \$42.4 million annual revenue increase effective January 1, 2009
- Equal percentage increase

## Arizona Investment Council (AIC)

- Supports APS request

## Mesquite Group (merchant generators)

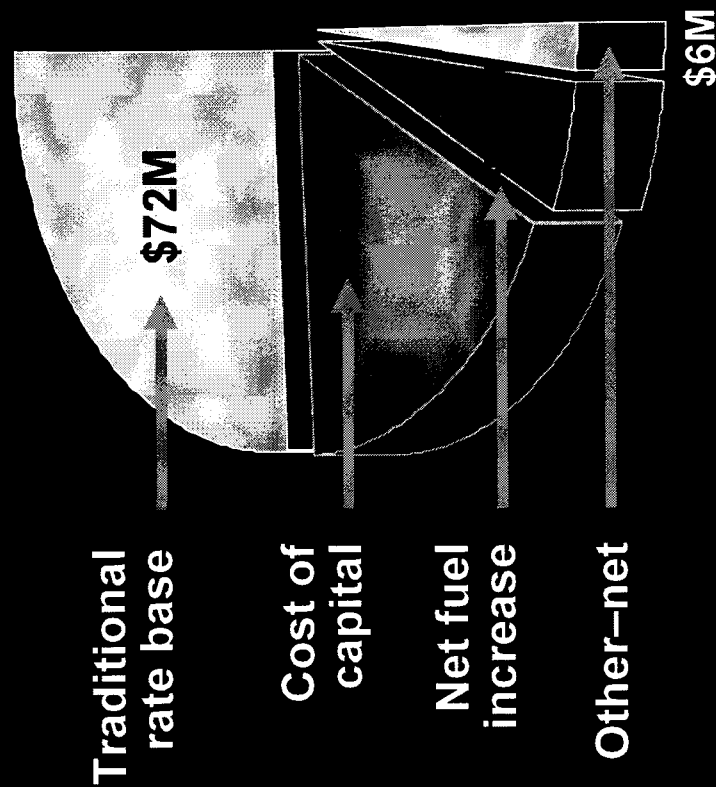
- Supports APS request

## **APS Retail Rate Case Elements**

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- **Adjusted 2007 test year**
- **Recognize \$1.7 billion of capital expenditures since last rate case**
- **Address earnings attrition**
- **Implement new growth impact fee**
- **Encourage energy efficiency programs**
- **New conservation rates**

# Composition of \$278 Million APS Rate Increase



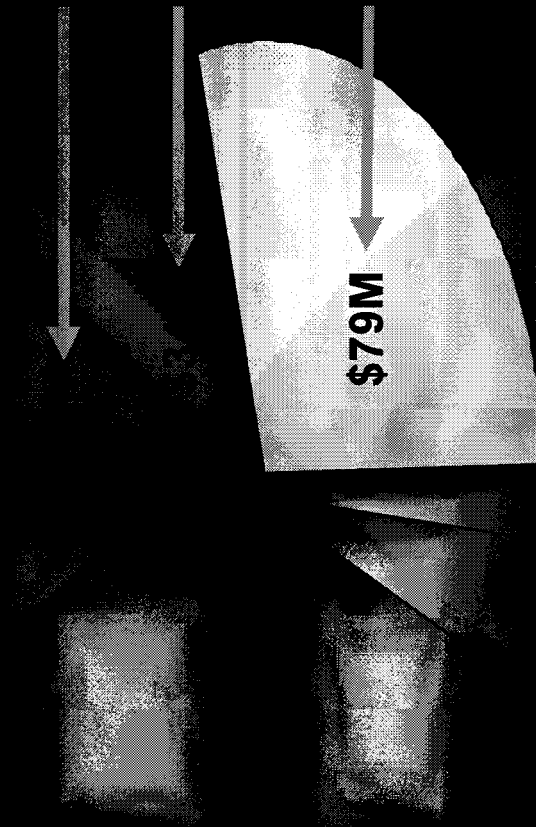


# Composition of \$278 Million APS Rate Increase

Post test-year  
large projects  
in-service

Other post  
test-year plant  
in-service

Attrition  
adjustment



# **Proposals to Mitigate Earnings Attrition**

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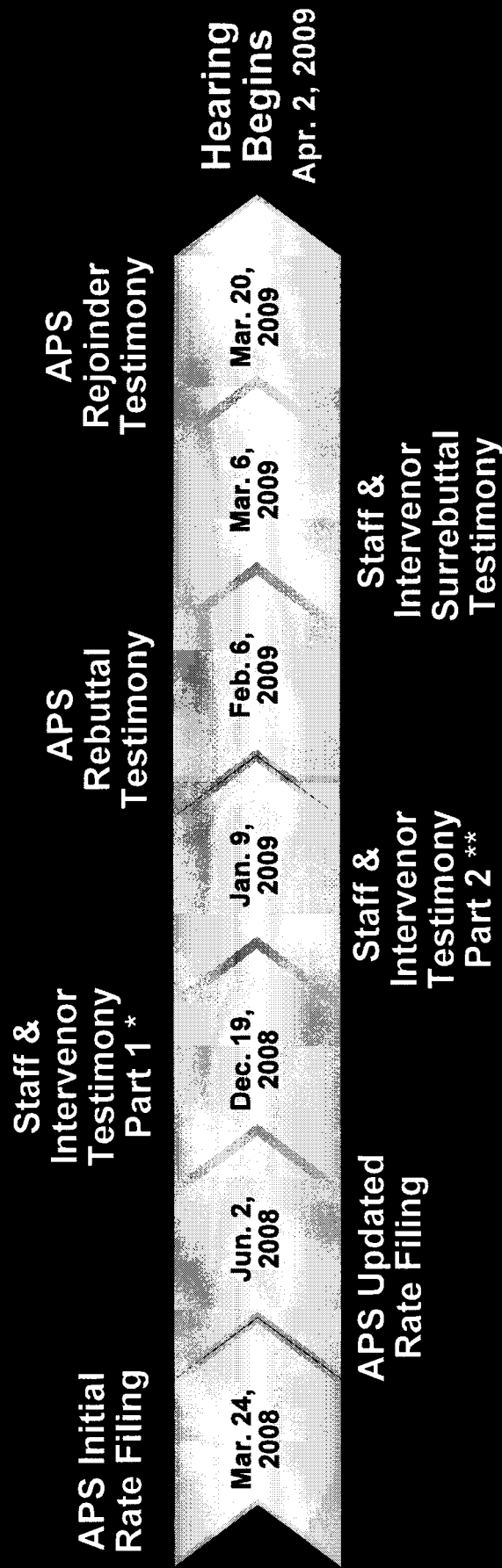
- Post test-year plant additions
  - Consistent with ACC historic test-year methodology
  - \$174 million large projects in service by mid-2008
  - \$245 million other plant in service by time rates go into effect
- \$79 million attrition adjustment to capture revenue shortfall of projected 2010 cost levels
- Removal of disincentives to DSM programs

# Growth Impact Fee Proposal

- Helps “growth pay for itself”
- Reduces increase for existing customers
- Supplements line extension payments approved in early 2008
- Captures additional growth-related costs
  - Carrying costs of tax asset related to line extension payments
  - Incremental operating costs

Net base rate increase	\$ 278 million	10.5 %
Proposed growth impact fee	(53) million	(2.0)%
Increase for existing customers	<u>\$ 225 million</u>	<u>8.5 %</u>

# APS Retail Rate Case Schedule

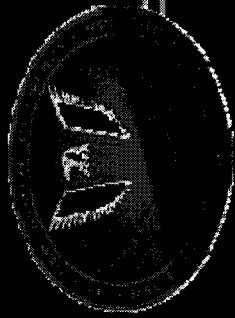


\* All issues except rate design and cost of service

\*\* Rate design and cost of service issues



- 14



# Transmission Revenue Increases

	1st Increase		2nd Increase	
	Request	Annual Revenue	Effective Date	Annual Revenue
Retail Portion (TCA)	\$30M	\$27M	3/1/2008	\$13M
Wholesale Portion	\$7M	\$1M	3/1/2008	\$2M
Total Increase	\$37M	\$28M		\$15M

# Arizona Corporation Commissioners

---

*Terms Expire January 2009*

---



Mike Gleason  
Republican



Jeff Hatch-Miller  
Republican



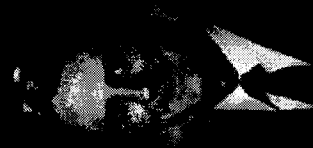
William Mundell  
Republican

*Terms Expire January 2011*

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Kristin Mayes  
Republican

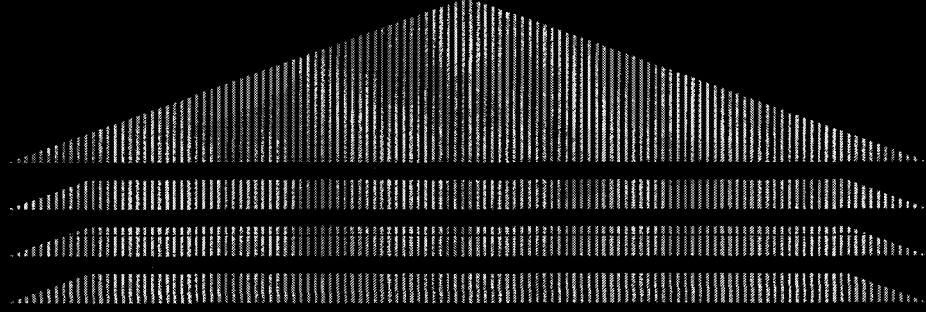


Gary Pierce  
Republican

# Focusing on Regulatory Improvements

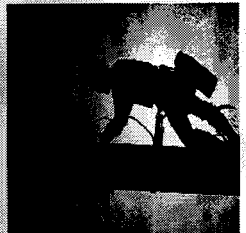
---

- Substantial APS capital expenditures driven by growth and reliability
- APS commodity prices increases
- Historic test year
- Significant regulatory lag
- Inadequate earnings
- Weak credit metrics
- No comprehensive state energy policy



- Partner with ACC and stakeholders to:
- Assure financial strength
  - Address regulatory lag
  - Improve alignment of goals
  - Implement integrated resource planning
  - Increase efficiency through new technology
  - Enhance customer service
  - Promote sustainable energy resources





# Financial Overview

Jim Hatfield

Analyst Conference  
November 7, 2008

# **Today's Agenda**

- Financial objectives
- Third quarter earnings
- Capital expenditures
- Liquidity and debt profile
- O&M cost management initiatives
- Credit ratings and financial metrics
- Value proposition

## **Long-Term Financial Objectives**

- Retain APS investment-grade credit ratings
- Improve financial strength and agility
- Emphasize capital and O&M budgeting disciplines
- Maintain ample liquidity and access to capital
- Constructively address earnings attrition
- Improve total return to above industry average

# 3rd Quarter September Earnings Summary

\$ Millions, Except EPS

	<u>2008</u>	<u>2007</u>	<u>Change</u>
APS	\$ 160	\$ 204	\$ (44)
SunCor	(6)	6	(12)
Other	<u>(2)</u>	<u>(1)</u>	<u>(1)</u>
Net income	<u>\$ 152</u>	<u>\$ 209</u>	<u>\$ (57)</u>
Earnings per share	<u><u>\$ 1.50</u></u>	<u><u>\$ 2.07</u></u>	<u><u>\$ (0.57)</u></u>

### 3<sup>rd</sup> Quarter September 2008 vs 3<sup>rd</sup> Quarter September 2007

\* Excludes \$0.03 for regulatory-related programs offset in revenues

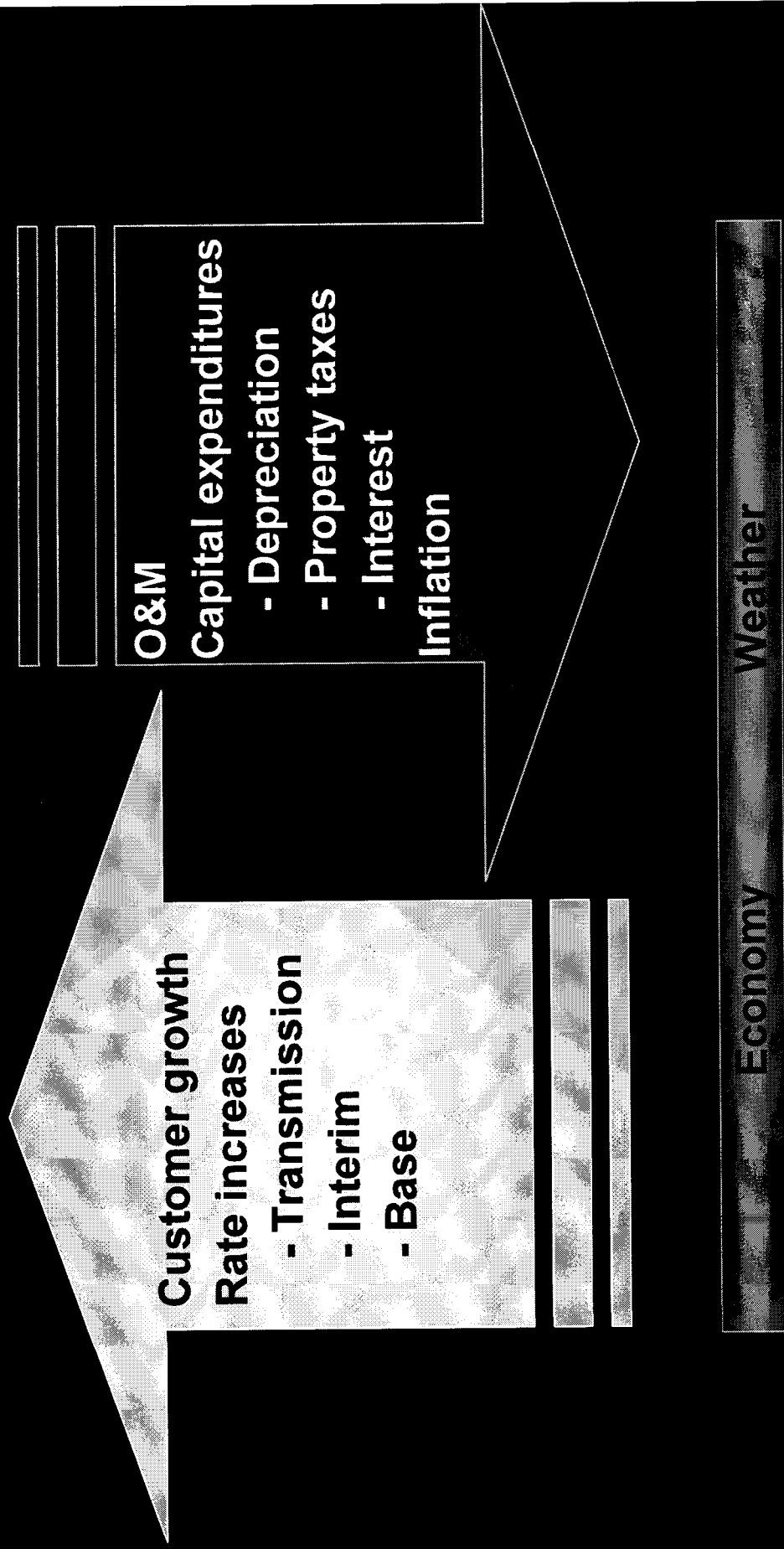
## **2008 Earnings Guidance**

### **As of November 4, 2008**

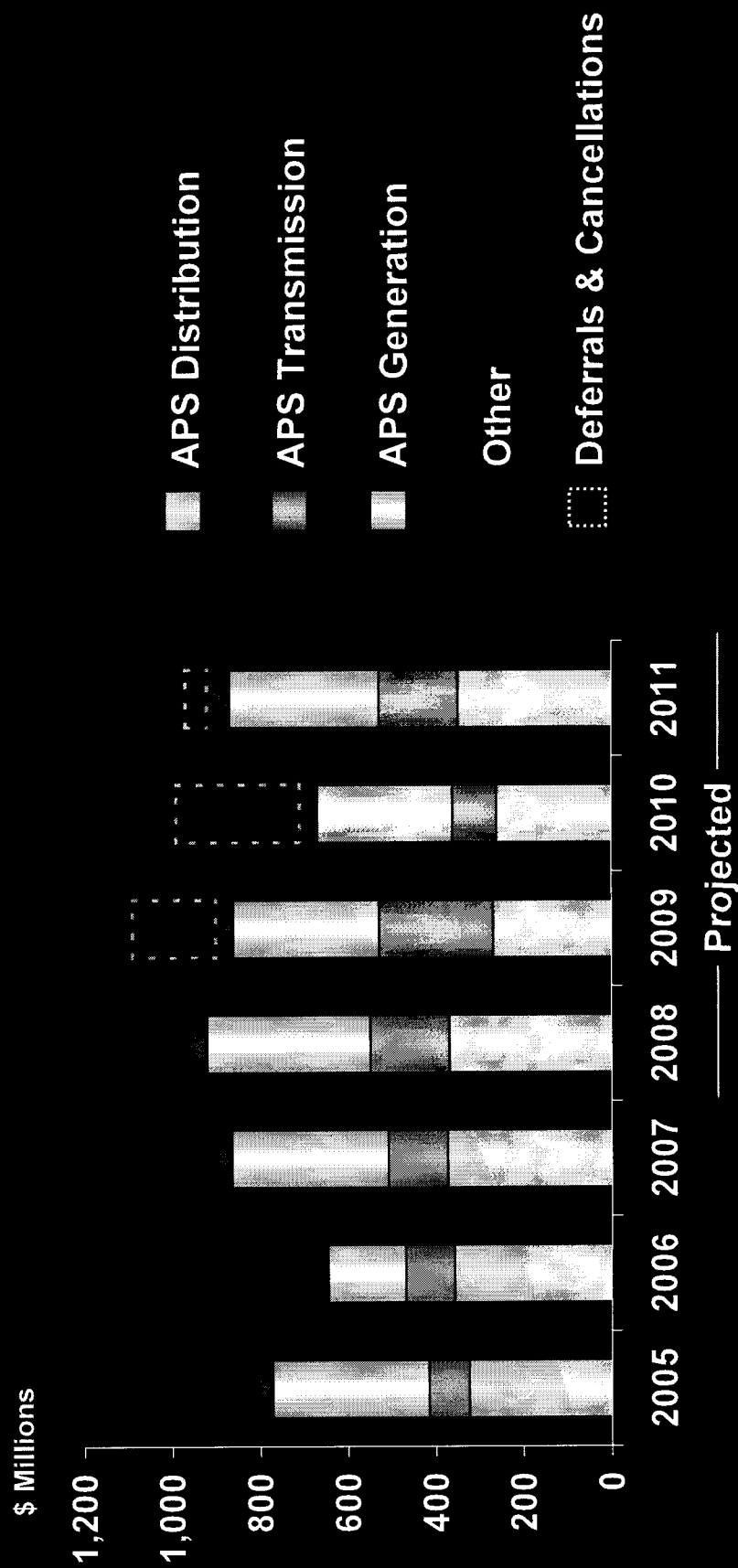
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- Consolidated on-going earnings expected to be within reasonable range around \$2.50 per share
  - Excludes \$0.30 per share of prior-year tax credits recorded second quarter 2008
  - APS will contribute substantially all of the earnings
  - SunCor's contribution will be minimal

# Primary Future Earnings Drivers



# Significant APS Capital Expenditures to Support Long-Term Growth



Excluding SunCor



# APS Capital Expenditure Reduction Details

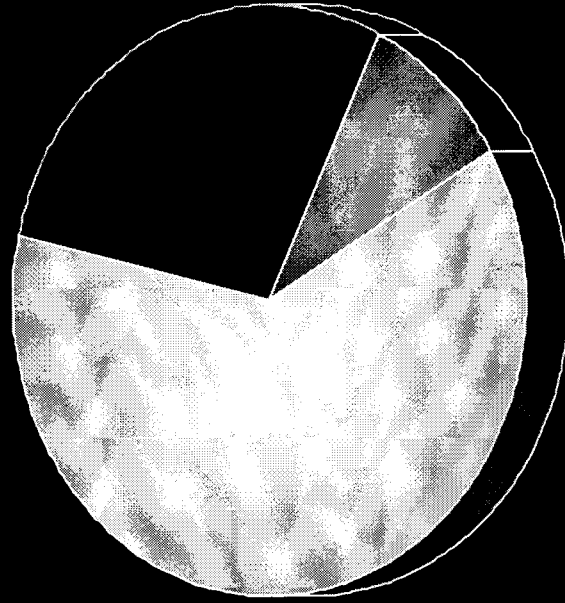
## Announced October 2008

(\$ Millions)	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Transmission	\$ 60	\$ 190	\$ 180	\$ 430
Distribution	100	80	30	210
Generation	<u>60</u>	<u>60</u>	<u>(40)</u>	<u>80</u>
Total	220	330	170	720
Line extension effects	<u>(30)</u>	<u>(50)</u>	<u>(120)</u>	<u>(200)</u>
Net reductions	<u>\$ 190</u>	<u>\$ 280</u>	<u>\$ 50</u>	<u>\$ 520</u>

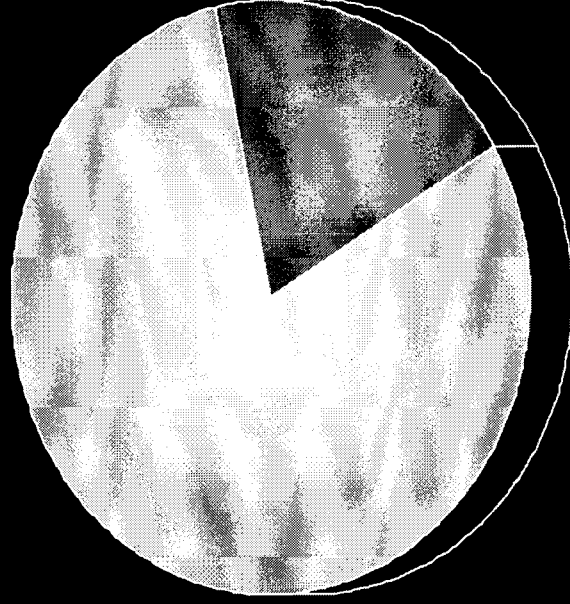
# APS Capital Expenditure Reductions

*Announced January 2008*  
More than \$200 million in 2008 - 2012

*Announced October 2008*  
More than \$700 million in 2009 - 2011

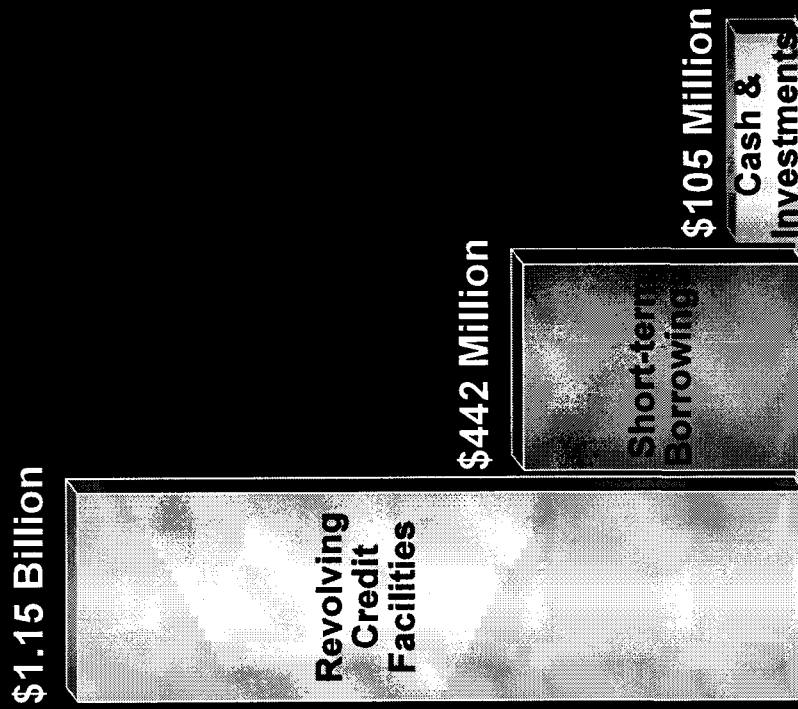


- Slower customer growth
- Improved planning, logistics & other
- Deferral of upgrades & projects



- Continued customer growth slowing
- Deferral of upgrades & projects

# Ample Liquidity Resources



- PNW (parent) ➡ \$300 million revolver expires December 2010
- APS ➡ \$400 million revolver expires December 2010
- APS ➡ \$500 million revolver expires September 2011
- \$51 million capacity loss from Lehman commitments
- No MAC clauses or “clean down” provisions

# Solid Revolver Bank Groups

(\$ Millions)

	<u>APS</u>	<u>PNW</u>	<u>Total</u>	<u>% of Total</u>
BNY Mellon	\$ 80	\$ 30	\$ 110	9.2
Bank of America	93	17	110	9.2
Citigroup	77	29	106	8.8
JPMorgan Chase	77	29	106	8.8
Keybank	68	29	97	8.1
Credit Suisse	61	17	78	6.5
Barclays	53	17	70	5.8
Wells Fargo	53	17	70	5.8
UBS Warburg	53	17	70	5.8
Union Bank	39	29	68	5.7
Mizuho	28	21	49	4.1

Continued

# Solid Revolver Bank Groups - Continued

(\$ Millions)

	<u>APS</u>	<u>PNW</u>	<u>Total</u>	<u>% of Total</u>
Sun Trust	\$ 36	\$ -	\$ 36	3.0
Wachovia	36	-	36	3.0
US Bank	17	13	30	2.5
KBC Bank	24	-	24	2.0
Dresdner	24	-	24	2.0
Bank of Tokyo - Mitsubishi	11	9	20	1.7
Northern Trust	11	9	20	1.7
Chang Hwa	15	-	15	1.3
Bank Hapoalim	10	-	10	0.8
Sub-Total	866	283	1,149	95.8
Lehman Brothers	34	17	51	4.2
Total	\$ 900	\$ 300	\$ 1,200	100.0

# Debt and Cash Balances

## September 30, 2008

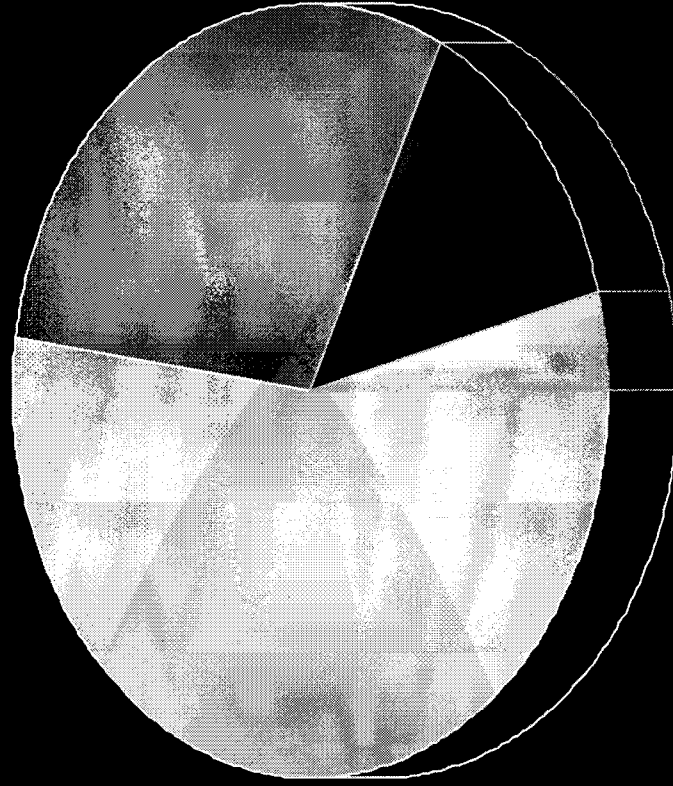
\$ Millions	APS*	Parent	SunCor	Total
Long-term debt including current maturities	\$ 2,851	\$ 175	\$ 177	\$ 3,203
Short-term debt	270	167	5	442
Total debt	<u>\$ 3,121</u>	<u>\$ 342</u>	<u>\$ 182</u>	<u>\$ 3,645</u>
Cash and investments	<u>\$ 76</u>	<u>\$ 19</u>	<u>\$ 10</u>	<u>\$ 105</u>

\* Excluding sale leaseback obligation bonds (approximately \$188 million)

# Tax-Exempt Debt Profile

## September 30, 2008

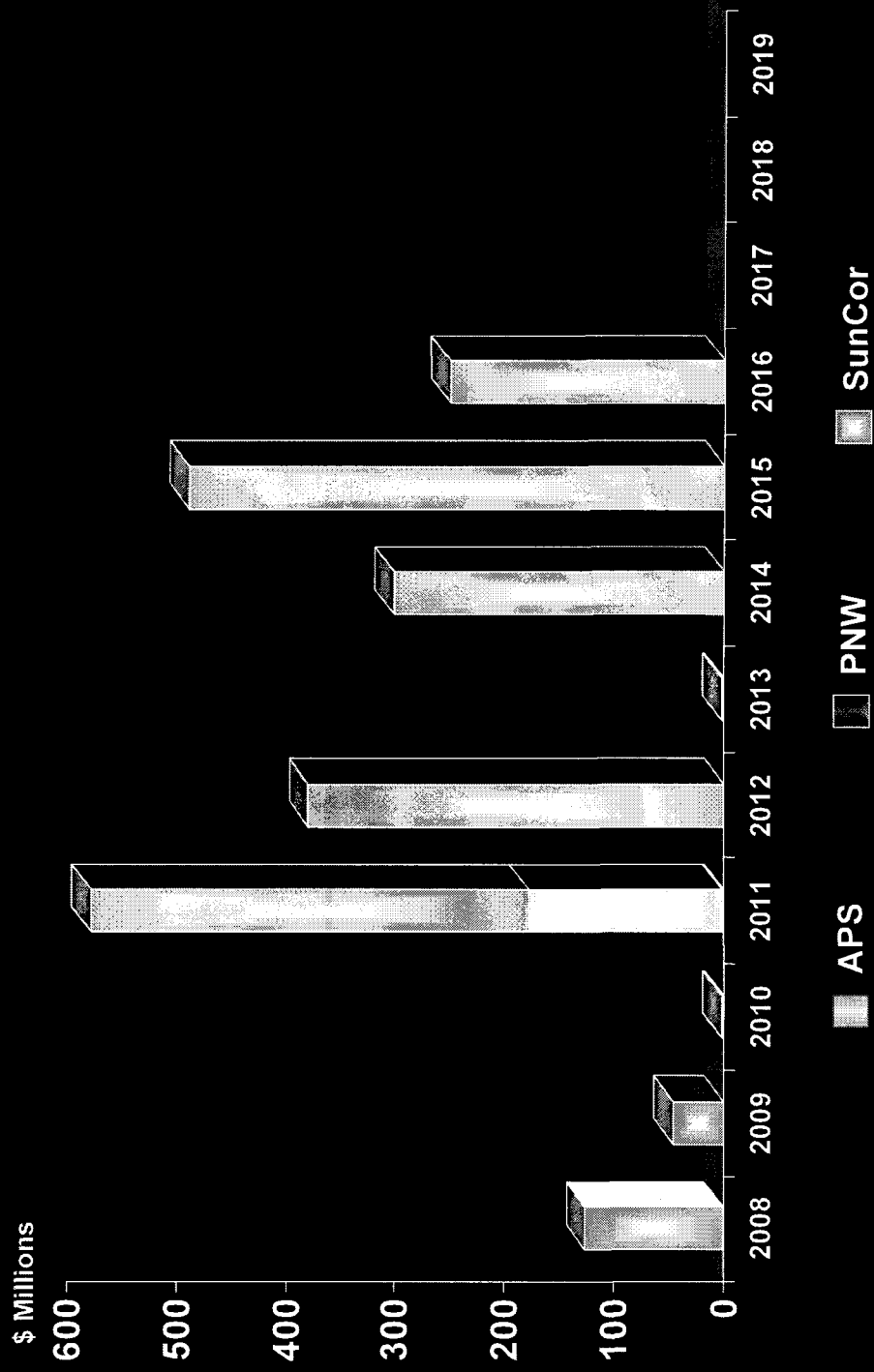
\$656 Million



■ Auction Rate - Ambac  
■ Fixed rate

■ Variable Rate - LOC  
■ Variable Rate - Unenhanced

# Manageable Long-Term Debt Maturity Profile

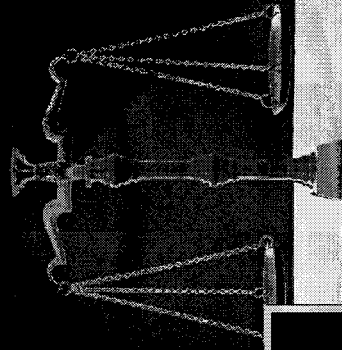




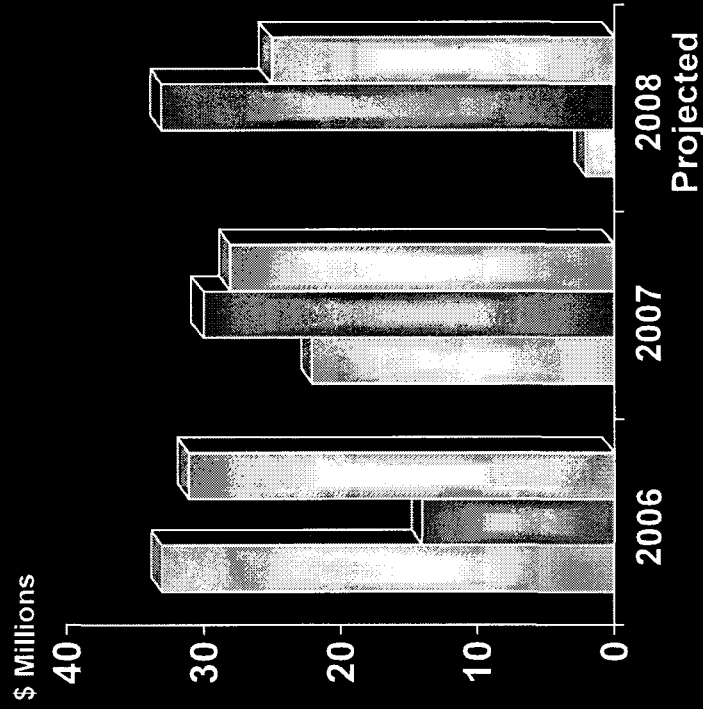
# O&M Cost Management Initiatives

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**Control costs to manage  
increases and related risks**



# Pension Update

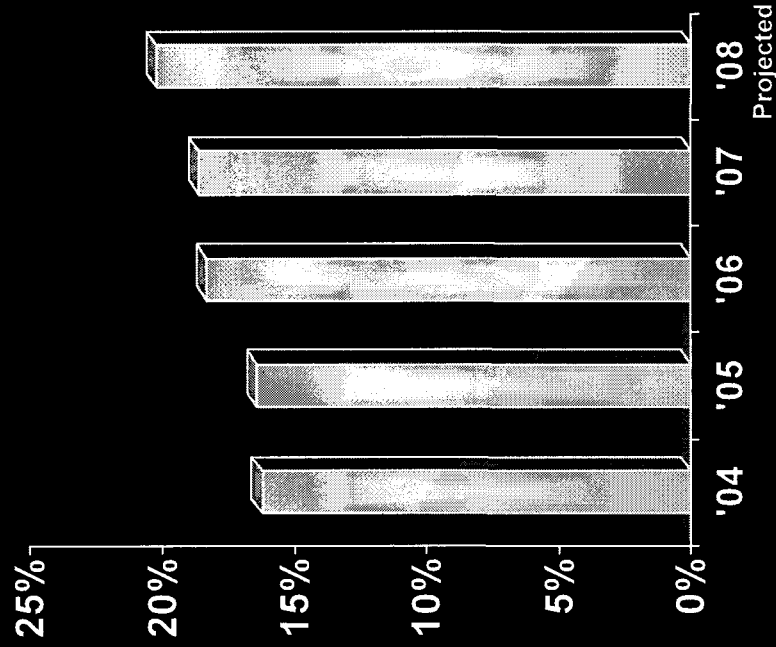


- Prudent funding of pension obligation
- 94% cash funded at 2007 plan year-end
- Annual actuarial valuations based on year-end status

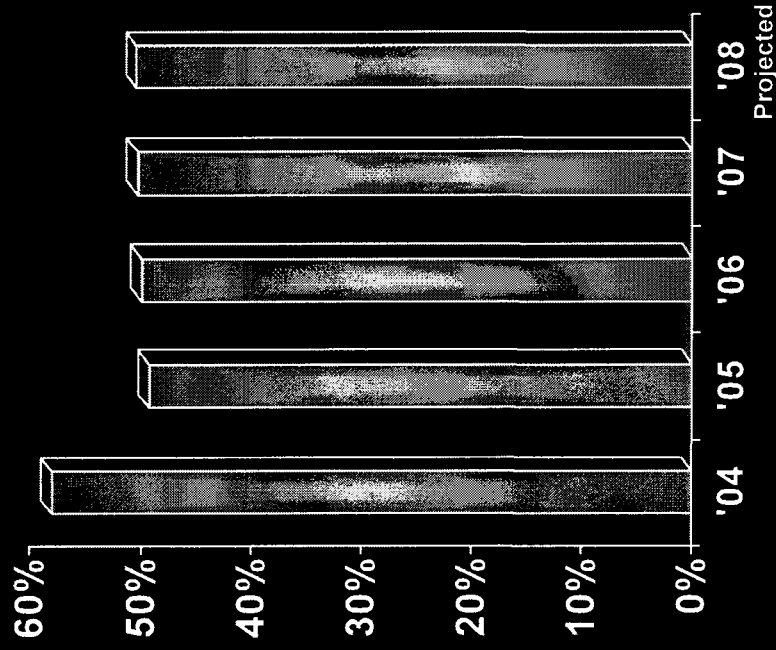
- Required cash contributions
- Optional cash contributions
- Income statement expense

# Long-Term Focus on Improving APS Credit Metrics

*Funds From Operations / Debt*



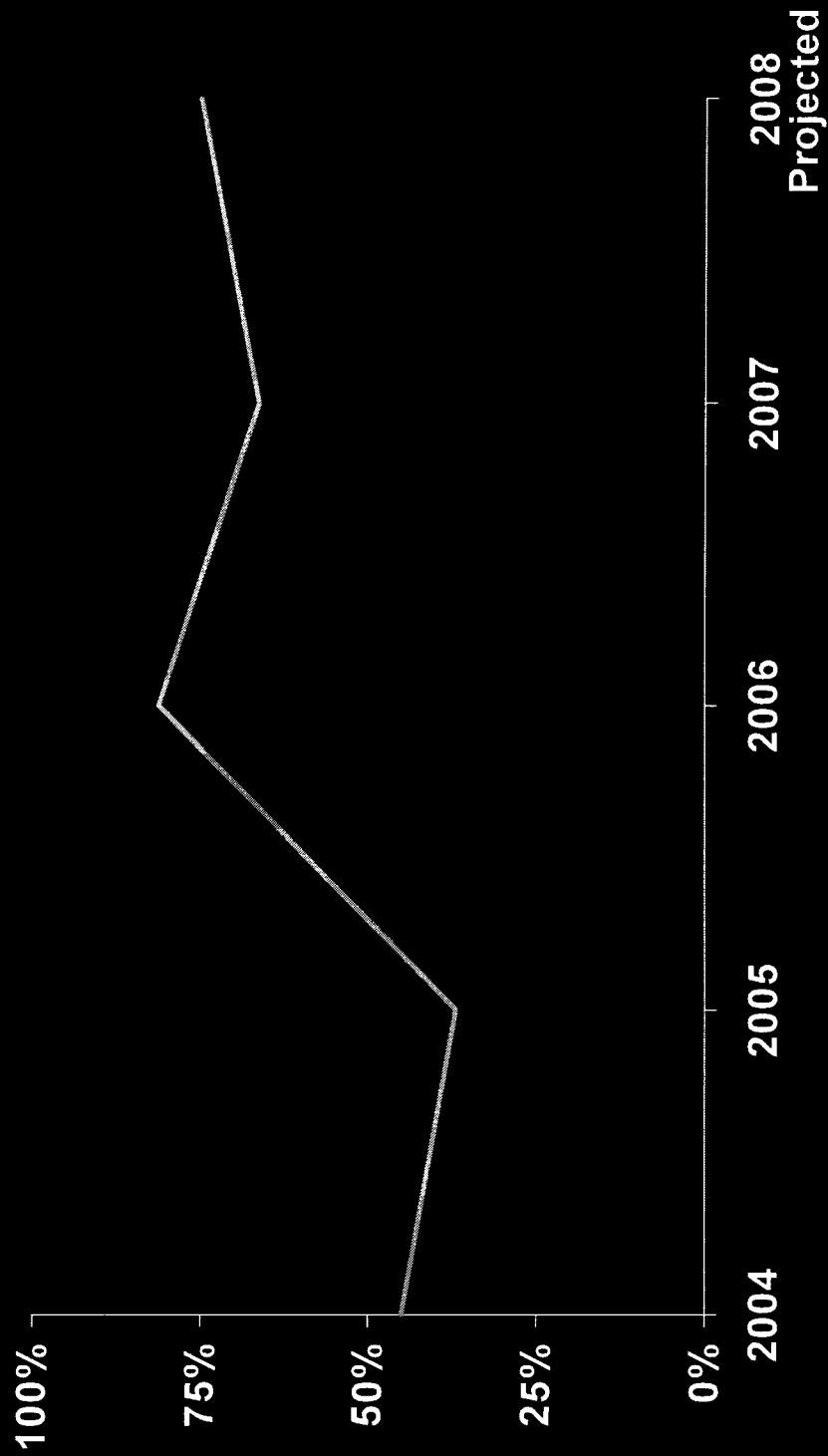
*Adjusted Debt / Total Capitalization\**



Based on 2008 earnings guidance

\* Adjusted for Palo Verde Unit 2 sale leaseback

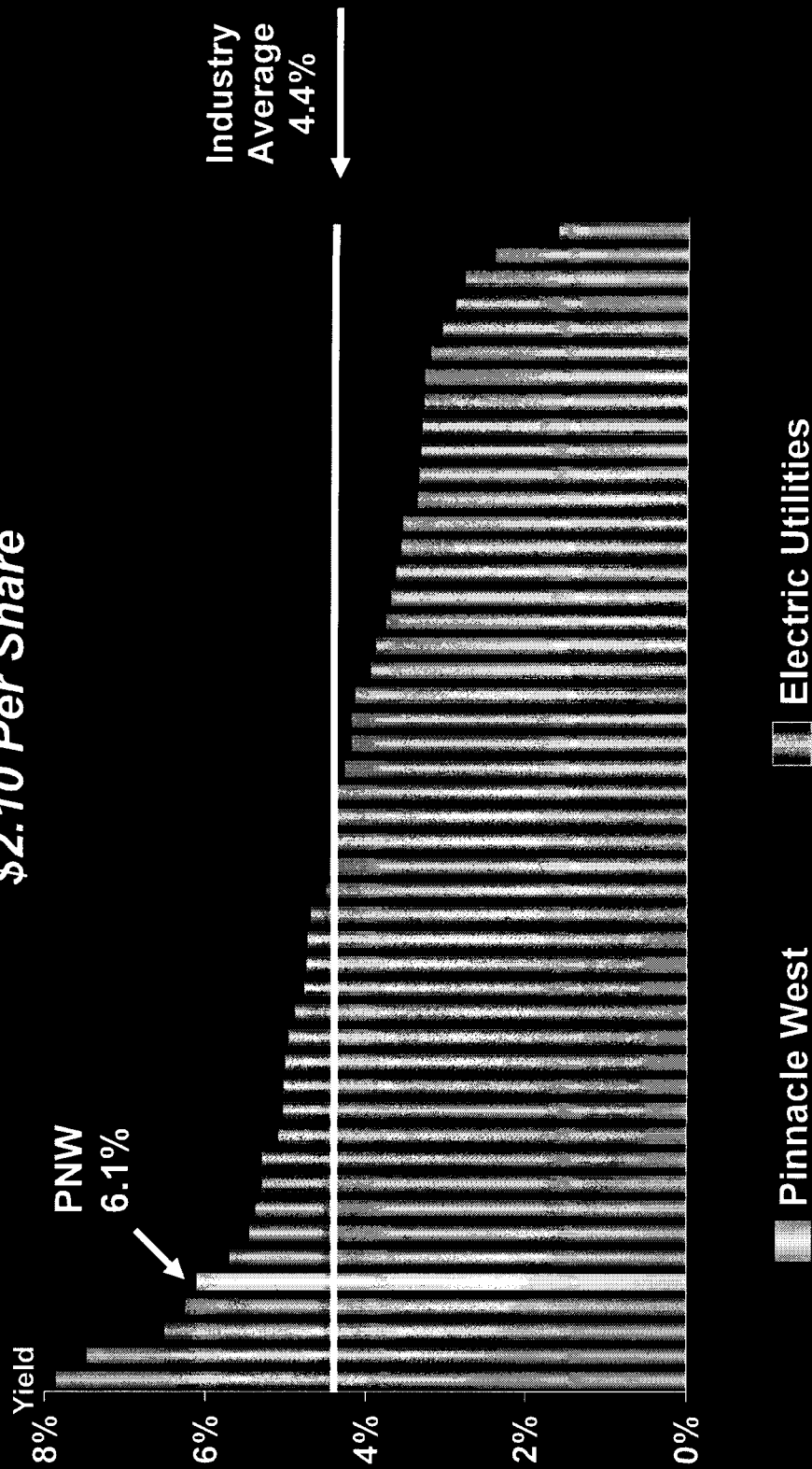
# APS Net Cash Flow as Percent of Capital Expenditures



Based on 2008 earnings guidance

# Attractive Common Stock Dividend

*Pinnacle West Annual Dividend  
\$2.10 Per Share*



As of September 30, 2008

# **Value Proposition**

- Integrated, regulated electric utility
  - Attractive long-term economic fundamentals
  - Operational excellence
  - Experienced management and workforce
  - Focus on regulatory improvements
- Financial performance focus
- Valuation
  - \$2.10 per share annual dividend
  - Investment-grade credit quality
  - Opportunities for valuation expansion

**McGill, James T(Z71171)**

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**From:** Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)  
**Sent:** Friday, December 19, 2008 6:11 AM  
**Subject:** PNW/APS: FORM 8-K REGARDING INTERIM RATE DECISION

Yesterday, the Arizona Corporation Commission approved an interim base rate surcharge for Arizona Public Service Company, which is expected to increase annual pretax retail revenues approximately \$65.2 million. This surcharge is subject to refund pending the final outcome of APS' general retail rate case. This morning, we filed a Form 8-K with the SEC regarding the ACC decision. The text of the 8-K is included below in this message.

As always, if you have any questions about this decision or need other information about our company, please contact me or Lisa Malagon (602-250-5671).

Best wishes to you and yours for the holidays ~

Becky  
Rebecca L. Hickman  
Director of Investor Relations  
Pinnacle West Capital Corporation  
400 North 5th Street, Station 9998  
Phoenix, Arizona 85004  
Telephone: (602) 250-5668  
Fax: (602) 250-2789  
E-mail: [rhickman@pinnaclewest.com](mailto:rhickman@pinnaclewest.com)

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**TEXT OF FORM 8-K**

**Item 8.01. Other Events**

**Interim Rate Order**

On December 18, 2008, the Arizona Corporation Commission (the "ACC") voted to approve an emergency interim base rate surcharge for Arizona Public Service Company ("APS"), effective for all bills issued after December 31, 2008. This surcharge is expected to increase annual pretax retail revenues approximately \$65.2 million, and is subject to refund with interest pending the final outcome of APS' general retail rate case. APS had requested an interim increase of approximately \$115 million in annual pretax retail revenues. For a typical residential customer on APS' standard rate schedule, the surcharge will result in a monthly increase of \$1.46 in the winter and \$1.99 in the summer.

The decision requires that APS (a) examine its operations and expenses, targeting additional cuts of at least \$20 million, and reinvest the savings and surcharge revenues "in infrastructure and technology necessary to serve APS customers and reduce the need for external debt financing"; (b) file with the ACC periodic reports of communications with credit ratings agencies; and (c) post a \$10 million bond or letter of credit until the ACC issues a final order in APS' general retail rate case.

The ACC is expected to issue a written order reflecting the decision before year-end. Each party to the proceeding will have the option of filing a motion for reconsideration of the written order within 20 days of its issuance.

Additionally, during the ACC open meeting in which the ACC approved the interim base rate surcharge, the director of the ACC Utilities Division stated that the Division's prepared testimony in APS' general rate case, which is scheduled to be filed with the ACC on December 19, 2008, will recommend an increase in annual pretax retail revenues that is more than the \$65.2 million granted for the interim base rate surcharge.

For more information regarding APS' request for an interim base rate surcharge and the general retail rate proceeding, see "Motion for Approval of Interim Rate" and "2008 General Rate Case" in Note 5 of Notes to Condensed Consolidated Financial Statements in the Pinnacle West/APS Quarterly Report for the fiscal quarter ended September 30, 2008.

**McGill, James T(Z71171)**

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**From:** McCallister, Bobbe S(Z99772) on behalf of Hickman, Rebecca (Z46875)  
**Sent:** Monday, December 22, 2008 6:10 AM  
**Subject:** PNW/APS: Organizational Changes Reporting to CFO

This morning, we announced organizational changes reporting to our chief financial officer, Jim Hatfield. The text of the press release announcing the changes is included below in this message. Since the changes involved financial officers, we also filed a Form 8-K describing these changes.

As always, if you have any questions about these announcements or need any other information about our company, please contact me or Lisa Malagon (602-250-5671).

Best wishes to you and yours for the holidays ~

*Becky*  
Rebecca L. Hickman  
Director of Investor Relations  
Pinnacle West Capital Corporation  
400 North 5th Street, Station 9998  
Phoenix, Arizona 85004  
Telephone: (602) 250-5668  
Fax: (602) 250-2789  
E-mail: [rhickman@pinnaclewest.com](mailto:rhickman@pinnaclewest.com)

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**PINNACLE WEST ANNOUNCES ORGANIZATIONAL CHANGES  
REPORTING TO CFO**

PHOENIX – Pinnacle West Capital Corp. (NYSE: PNW) Senior Vice President and Chief Financial Officer James R. Hatfield announced today a number of organizational reporting changes designed to provide better alignment and focus to the Company's financial group. The changes take effect Jan. 1, 2009.

Under the new structure, current Vice Presidents Chris Froggatt and Barbara Gomez will switch positions, with Froggatt assuming the role of Vice President and Treasurer, and Gomez being named Vice President, Controller and Chief Accounting Officer.

Hatfield also announced the hiring of Denise R. Danner as Vice President and Controller for Arizona Public Service (APS), the Company's principal subsidiary, effective Jan. 5, 2009. Danner, who will report directly to Gomez, joins APS from Allied Waste Industries, Inc. where she has served as Senior Vice President, Controller and Chief Accounting Officer since September 2007. Before Allied Waste, she was Vice President, Controller and Chief Accounting Officer for Phelps Dodge Corporation and prior to that served as Controller of Wildblue Communications, Inc.

"The changes are designed to strengthen our team and continue our efforts to improve the level of performance that benefits both customers and shareholders," said Hatfield. "With the worst financial market turmoil our country has seen in decades, it is more important than ever to have an experienced and talented financial team that can help us maintain access to capital investment, while ensuring we are doing all we can to lower internal operating expenses without jeopardizing safe and reliable electricity service to our one million-plus customers."

Hatfield added that the reorganization not only strengthens the Company by ensuring fresh perspectives across all financial functions, but it "provides career development opportunities for Gomez and Froggatt, while adding depth and bench strength with the addition of Danner, an experienced controller."

Other positions now reporting directly to Hatfield include the Company's Director of Investor Relations and its Director of Tax Services. Hatfield said elevation of the tax reporting relationship directly to the CFO is consistent with organizational "best practices." Additionally, the Company's Director of Supply Chain Management and Group Leader Risk/Insurance Management will report directly to Gomez.



Pinnacle West Vice President of Human Resources Lori Sundberg said the organizational changes reinforce the Company's commitment to developing its employees at all levels of the business. "Talent management and development is one of our company-wide strategic priorities," she said. "These moves are a great example of how we are working to strengthen our leadership team and improve succession pipelines."

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

-30-

**McGill, James T(Z71171)**

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**From:** McGill, James T(Z71171)  
**Sent:** Friday, December 19, 2008 10:25 AM  
**To:** 'Bettinelli, Antonio'; 'Shipman, Todd'  
**Subject:** Mayes Proposed Amendment

**Attachments:** Mayes Proposed Amendment 1\_08 RC-0172\_121608.pdf

Attached is the Mayes amendment.



Mayes Proposed  
Amendment 1\_08 ...

**McGill, James T(Z71171)**

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**From:** McGill, James T(Z71171)  
**Sent:** Friday, December 19, 2008 10:26 AM  
**To:** 'Philip.Smyth@fitchratings.com'  
**Subject:** Mayes Proposed Amendment

**Attachments:** Mayes Proposed Amendment 1\_08 RC-0172\_121608.pdf

Attached is the Mayes amendment.



Mayes Proposed  
Amendment 1\_08 ...

**McGill, James T(Z71171)**

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**From:** McGill, James T(Z71171)  
**Sent:** Friday, December 19, 2008 10:27 AM  
**To:** 'Schumacher, Laura'  
**Subject:** Mayes Proposed Amendment

**Attachments:** Mayes Proposed Amendment 1\_08 RC-0172\_121608.pdf

Attached is the Mayes Amendment.



Mayes Proposed  
Amendment 1\_08 ...

THIS AMENDMENT:	
_____ Passed _____	Passed as amended by _____
_____ Failed _____	Not Offered _____
Withdrawn <b>RECEIVED</b>	

2008 DEC 16 A 8:46

**MAYES PROPOSED AMENDMENT 1**

AZ CORP COMMISSION  
DOCKET CONTROL

TIME/DATE PREPARED: December 15, 2008

COMPANY: Arizona Public Service Company

AGENDA ITEM NO. U-20

DOCKET NO. E-01345A-08-0172

OPEN MEETING DATE: Dec. 16-19, 2008

Page 31: DELETE line 9 following "doubt" through line 27

**AND INSERT:**

"Based upon the testimony and evidence presented at the hearing combined with the current economic climate and the Commission's broad authority to determine what constitutes an emergency or whether one is imminent, we find that an emergency exists in this case.

Arizona Attorney General Opinion 71-17 expresses clear guidelines for determining when an "emergency" declaration is appropriate. According to the criteria described in the Opinion, an emergency exists when "sudden change brings hardship to a company, when a company is insolvent or when the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt." See also *RUCO*, in which the court stated that "interim rate making requires... an emergency situation, the posting of a bond, and a subsequent full rate case-in order to comport with the constitutional mandate that rates be just and reasonable."<sup>1</sup>

It is clear that recent sudden changes have dramatically affected global credit markets, impacting the operation of companies nationwide. Events unfolding even as the hearing in this case began illustrate the magnitude of the ongoing economic crisis. On the first day of the hearing, September 15, 2008, Lehman Brothers declared bankruptcy.<sup>2</sup> At the hearing, APS stated that they would be unable to issue a planned \$400 million equity issuance because the stock offering would have been below the book value of the Company.<sup>3</sup> Elsewhere, the record reflects news accounts describing the impending financial crunch, including one article entitled, "Ripple spreading in the financial crisis"<sup>4</sup> In sum, the record in this case reflects the extraordinary and uncertain economic times faced by consumers and businesses in Arizona and across the country.

<sup>1</sup> Residential Utility Consumer Office v. Ariz. Corp. Comm'n, 199 Ariz. 588, at 599, 20 P.3d 1169 at 1173 (Ariz. Ct. App. 2001).

<sup>2</sup> Tr Vol I, Page 130, lines 10-12.

<sup>3</sup> Tr. Vol. I, Page 66, lines 13-18.

<sup>4</sup> Tr Vol II, Page 416, line 17.

Given the recent state of the economy, and absent near-term rate relief, APS' bonds could be downgraded from investment to non-investment grade, which could bar the Company from accessing the credit markets, or make the procurement of credit prohibitively expensive.<sup>5</sup> In response to a letter from a Commissioner requesting information regarding the cost impact associated with a bond downgrade, APS filed exhibits demonstrating that such a downgrade to "junk bond" territory would result in higher financing costs across all categories of Company debt, totaling \$1 billion of additional costs over the next 10 years.<sup>6</sup> Almost as troubling as the financial impact to APS and its customers associated with a credit downgrade or inability to access credit markets, is the likelihood that such a status could seriously impair APS's ability to continue to build critical electric infrastructure and to deploy the next generation of renewable energy projects in Arizona. APS has assured the Commission that if interim rates are implemented, the earnings generated "would be reinvested in infrastructure and technology necessary to serve APS customers and reduce the need for external debt financing."<sup>7</sup>

This Commission expects the Company to be a major participant in renewable energy and transmission projects throughout its service territory, most of which will only come to fruition if the Company remains a credit-worthy counterparty to the developers of these projects. APS will also be required to invest significantly in traditional forms of energy generation to meet its expected load growth, as APS requires 5,000 megawatts of new resources by 2020. Despite these energy needs, APS has indicated that it will cut or postpone \$500 million of spending from its capital expenditure budget over the next four years and has cut its operations and maintenance budget by \$50 million. Therefore, in light of the requirement that APS continue to build new infrastructure and be a leader nationally in the production of renewable energy, we believe that the Company's ability to maintain the quality of service mandated by the Commission is in serious doubt under the imminent threat of a credit downgrade.

While we find that APS is experiencing an emergency, we wish to make it clear that we strongly disagree with APS that emergency or interim rate increases can be routinely implemented. We believe emergency rate increases should be sparingly utilized, and reserved for the most perilous situations.

Page 35:  
DELETE lines 1 to 5

Lines 12-13  
DELETE: "Although we do not believe that APS has demonstrated that an emergency exists currently, we"

AND INSERT: "We"

---

<sup>5</sup> See October 17, 2008 APS Response to an October 8, 2008 letter from Commissioner Mayes.

<sup>6</sup> See pages 4 and 13, APS Exhibit 1, as noted in response to an October 3, 2008 letter from Commissioner Gleason.

<sup>7</sup> See APS' June 6, 2008 Motion, p. 6.

Page 35, After line 21, INSERT:

"Based on the above we find that Staffs alternative determination of an increase of \$65.2 million is reasonable and appropriate. This will result in a surcharge of \$0.00226 per kWh. This will increase the average APS residential customer's bill by \$1.99 per month in the summer and \$1.46 per month in the winter. The emergency interim surcharge will be subject to refund pending a decision in APS' permanent rate case.

Page 35, line 23 INSERT: "additional" after "believe"

Page 39, DELETE lines 1-2

Page 39, line 8, After "recession" INSERT:

"we find that an emergency exists, therefore,"

Page 39, line 8, After the first "reasonable" INSERT:

"to adopt the level of Staff's alternative emergency interim rate increase and"

Page 40, line 20, INSERT NEW FINDINGS OF FACT:

"While APS has stated that it has responded to its current fiscal condition by postponing \$500 million in capital expenditures over the next four years, and has cut \$50 million from its operations budget, the Company has resisted additional cost savings measures, as outlined in a response to an inquiry from a Commissioner asking APS to detail its cost savings activities.<sup>8</sup>

In light of the fact that APS is experiencing an emergency for the second time since 2006, and is requesting that its customers pay additional rates prior to a complete investigation by this Commission of the prudence of the investments underlying its proposed permanent rate increase, we believe that it is in the public interest to require the Company to more closely scrutinize its operations and expenses and make additional cuts to these areas of its budget. We believe that the amount of budget cuts APS should target is at least \$20 million (annualized pre-tax), or 2.6 percent below its 2007 test year operating and maintenance expense. Adopting these measures provides an additional avenue for APS to improve its finances. Specifically, we believe APS should make use of several easily identifiable short term measures, to further buttress its finances and protect ratepayers until its permanent full rate case is completed. We decline to declare precisely how those cuts should be made, but find that the Company should consider cutting back its lobbying and advertising expenditures, paring back management compensation for 2009, imposing a temporary hiring freeze for all non-essential personnel, examining payroll overhead and implementing a freeze on increases to its dividend, among other measures. Such steps would be similar to those taken by corporations throughout the United States facing emergencies

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<sup>8</sup> These figures were provided to the Commission in this docket in response to a November 19, 2008 letter from Commissioner Mayes.

during these difficult economic times. Given its request for an emergency rate increase, we find that APS should be prepared to adjust its practices from business as usual to appropriately reflect the severity of the emergency it has identified. Further, the Company should file a report detailing the cost saving measures taken and associated savings achieved in this Docket no later than March 18, 2009, for Commission review.

In this proceeding, APS has consistently pointed to its financial metrics as demonstrative of the Company's deteriorating condition. Because APS' finances have been made a central issue in this proceeding, we believe it is necessary that APS better inform this Commission of its interactions with credit ratings agencies. Accordingly, APS should be required to file all communications between APS/Pinnacle West personnel/representatives and the representatives of credit ratings agencies, including notes, emails, phone messages, presentations (inclusive of memos and PowerPoint), and meeting notes, and that APS should memorialize the substance of any meetings and phone calls between APS and ratings agency representatives, effective the date the Commission votes on this Order. APS shall file all such communications as a compliance item in this docket, until the conclusion of its general rate case, and thereafter, with Docket control every six months, beginning January 1, 2010."

Page 40, line 26, DELETE: "No emergency exists to warrant the implementation of interim" AND INSERT: "An emergency exists which warrants the implementation of emergency"

Page 40, line 28, DELETE: "denied without prejudice" AND INSERT: "approved as discussed herein"

Page 41, lines 2 & 3, DELETE: "Company's Motion for an Interim Base Rate Surcharge is hereby denied without prejudice." AND INSERT: "Company is hereby granted an emergency interim base rate surcharge of \$0.00226 per kwh that shall become effective with all bills issued after December 31, 2008."

Page 41, line 4, INSERT NEW ORDERING PARAGRAPHS:

"IT IS FURTHER ORDERED that this surcharge shall not apply to E-3 and E-4 low income customers, E-36 customers, and the solar rate schedules Solar-2 and SP-1.

IT IS FURTHER ORDERED that Arizona Public Service Company shall notice all its customers, in a form acceptable to Staff, of this surcharge by December 31, 2008.

IT IS FURTHER ORDERED that Arizona Public Service Company shall post a \$10 million bond or sight draft letter of credit and provide the original to the Commission's Business Office and file copies in Docket Control as a compliance item in this Docket, prior to December 31, 2008, and such bond or sight draft letter of credit shall remain in effect until a final order is issued by the Commission in Arizona Public Service Company's pending permanent rate case."

Page 42, line 4, INSERT NEW ORDERING PARAGRAPHS:



"IT IS FURTHER ORDERED that Arizona Public Service Company shall examine its operations and expenses and employ short term measures to further buttress its financial position. Arizona Public Service Company shall target additional cuts to its operations and expenses of at least \$20 million, or 2.6 percent below its 2007 test year operations and maintenance expense. Arizona Public Service Company shall consider items such as cutting back its lobbying and advertising expenditures, paring back management compensation for 2009, imposing a temporary hiring freeze for all non-essential personnel, examining payroll overhead and implementing a freeze on any increases to its dividend in 2009, among other possible measures.

IT IS FURTHER ORDERED that Arizona Public Service Company shall file a report with the Commission's Docket Control as a compliance item in this docket, detailing the cost cutting measures taken and associated savings, no later than March 18, 2009 for Commission review.

IT IS FURTHER ORDERED that APS shall reinvest the earnings resulting from the additional interim base rate surcharge and any monies achieved from cost savings measures taken pursuant to this Order, in infrastructure and technology necessary to serve APS customers and reduce the need for external debt financing.

IT IS FURTHER ORDERED that APS shall file all communications between Arizona Public Service Company/Pinnacle West Capital Corporation personnel/representatives and the representatives of credit ratings agencies, including notes, emails, phone messages, presentations (inclusive of memos and PowerPoint), and meeting notes.

IT IS FURTHER ORDERED that Arizona Public Service Company shall memorialize the substance of any meetings and phone calls between Arizona Public Service Company/Pinnacle West Capital Corporation personnel/representatives and ratings agency representatives, for past communications and on an ongoing basis, effective the date the Commission votes on this Order.

IT IS FURTHER ORDERED that Arizona Public Service Company shall file all such communications as a compliance item in this Docket. APS shall file all currently existing communications within 10 days of the effective date of this Decision and shall file future communications on a monthly basis until the conclusion of its general rate case. Thereafter, APS shall make such filings on a six month basis, with the first filing due on January 1, 2010."

Make all conforming changes.